

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest on the 2021B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2021B Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS” with respect to tax consequences relating to the 2021B Bonds.



\$48,040,000
EASTERN MUNICIPAL WATER DISTRICT
REFUNDING WATER AND WASTEWATER REVENUE BONDS, SERIES 2021B

CUSIP: 27627T CG5

Dated: Date of Delivery

Price: 100%

Due: July 1, 2046

Scheduled Mandatory Tender Date: July 1, 2024

Index Spread: +0.10%

Call Protection Date: January 1, 2024

The 2021B Bonds are being issued in fully registered form and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the 2021B Bonds will not receive securities certificates representing their beneficial ownership in the 2021B Bonds purchased. The principal of and interest on the 2021B Bonds are payable by the Trustee to Cede & Co. and such interest and principal payments and premium, if any, are to be disbursed to the Beneficial Owners of the 2021B Bonds through their nominees.

The 2021B Bonds will be initially issued in the Index Mode and will bear interest for each day during the Tender Period at a SIFMA Index Rate (the per annum rate of interest established on each SIFMA Index Determination Date equal to the sum of: (a) the SIFMA Index; and (b) the Index Spread applicable to the related Tender Period), all as more fully described under the caption “THE 2021B BONDS.” While the 2021B Bonds are in the Index Mode, interest on the 2021B Bonds will be payable on the first Business Day of each month, commencing July 1, 2021, on each Scheduled Mandatory Tender Date and on each Unscheduled Mandatory Tender Date. The 2021B Bonds will be subject to a Scheduled Mandatory Tender on the date set forth herein. The failure of the District to pay the Purchase Price of the 2021B Bonds upon any Scheduled Mandatory Tender will not constitute an Event of Default under the Indenture, but the 2021B Bonds will thereafter bear interest at a SIFMA Delayed Remarketing Period Rate until they are remarketed, redeemed or converted to another Mode. See the caption “THE 2021B BONDS—Mandatory Tender for Purchase—Scheduled Mandatory Tender for Purchase.” The 2021B Bonds are also subject to mandatory tender upon a Change in Mode or on an Unscheduled Mandatory Tender Date at the option of the District as described in this Official Statement. The District is not obligated to pay the Purchase Price of the 2021B Bonds upon any Unscheduled Mandatory Tender and any such failure will not constitute an Event of Default under the Indenture. See the caption “THE 2021B BONDS—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase.” While in the Index Mode, individual purchases of 2021B Bonds will be made in principal amounts of \$100,000 and integral multiples of \$5,000 in excess thereof.

This Official Statement describes the 2021B Bonds while in the Index Mode and bearing interest at a SIFMA Index Rate for the Tender Period commencing on June 10, 2021 only. There are significant differences in the terms of the 2021B Bonds while they are in a Mode other than the Index Mode and bear interest at a rate other than the SIFMA Index Rate. This Official Statement is not intended to provide information with respect to the 2021B Bonds in a Mode other than the Index Mode and bearing interest at a rate other than the SIFMA Index Rate, or for a Tender Period other than the Tender Period commencing on June 10, 2021. Owners and prospective owners of the 2021B Bonds should not rely on this Official Statement for information in connection with any Change in Mode, but should look solely to the offering document to be used in connection with any such Change in Mode.

The 2021B Bonds are being issued pursuant to the Indenture of Trust, dated as of June 1, 2021, by and between Eastern Municipal Water District and U.S. Bank National Association, as trustee, to refund certain outstanding obligations of the District and to pay costs of issuance of the 2021B Bonds, all as more fully described herein.

The obligation of the District to pay principal of and interest on the 2021B Bonds is on a parity with the obligation of the District to make payments on certain obligations of the District currently outstanding in the aggregate principal amount of \$888,551,501. The District may incur additional obligations payable on a senior basis to the 2021B Bonds, subject to the terms and conditions of the Master Resolution (as such term is defined in Appendix C), as more fully described herein. The District may also incur additional obligations payable from Net Revenues on a parity with the 2021B Bonds, subject to the terms and conditions of the Indenture, as more fully described herein.

The 2021B Bonds are subject to optional and mandatory redemption prior to maturity as more fully described herein.

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2021B BONDS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS DESCRIBED IN THE INDENTURE AND DOES NOT CONSTITUTE A DEBT OF ANY OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NOTWITHSTANDING ANYTHING IN THE INDENTURE OR THE 2021B BONDS, BUT SUBJECT TO THE PRIORITY OF PAYMENT WITH RESPECT TO MAINTENANCE AND OPERATION COSTS AND PARITY OBLIGATIONS, THE DISTRICT IS NOT REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OTHER THAN THE NET REVENUES, THE SUBORDINATE OBLIGATION PAYMENT FUND AND OTHER MONEYS PLEDGED UNDER THE INDENTURE FOR ANY OF THE PURPOSES MENTIONED IN THE INDENTURE, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2021B BONDS OR FOR ANY OTHER PURPOSE OF THE INDENTURE. NEVERTHELESS, THE DISTRICT MAY, BUT IS NOT REQUIRED TO, ADVANCE FOR ANY OF THE PURPOSES OF THE INDENTURE ANY FUNDS OF THE DISTRICT WHICH MAY BE MADE AVAILABLE TO IT FOR SUCH PURPOSES.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THE 2021B BONDS. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The 2021B Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of the valid, legal and binding nature of the 2021B Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Olivarez Madruga Lemieux O’Neill, LLP, Westlake Village, California, for the Underwriter by its counsel, Nixon Peabody LLP, Los Angeles, California, and for the Trustee by its counsel. It is anticipated that the 2021B Bonds will be available for delivery through the facilities of The Depository Trust Company on or about June 10, 2021.

Morgan Stanley

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations in connection with the remarketing of the 2021B Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the 2021B Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or owners of the 2021B Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has 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 Underwriter does not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described herein since the date hereof. All summaries of the 2021B Bond documents or other documents are made subject to the respective provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District for further information in connection therewith.

IN CONNECTION WITH THE OFFERING OF THE 2021B BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2021B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

THE 2021B BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2021B BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The District maintains an Internet website. However, the information presented on such website is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2021B Bonds.

EASTERN MUNICIPAL WATER DISTRICT

2270 Trumble Road
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Perris, California 92572-8300

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Philip E. Paule, President
Randy A. Record, Vice President
Stephen J. Corona, Director
Jeff Armstrong, Director
David J. Slawson, Director

DISTRICT STAFF

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Nick Kanetis, Deputy General Manager
Laura M. Nomura, CPA, Deputy General Manager and Treasurer
Jeff Wall, Assistant General Manager, Operations and Maintenance
John Adams, Chief Financial Officer
Thomas Hays, Senior Financial Manager, Debt Administration
Sheila Zelaya, Board Secretary

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TRUSTEE AND CALCULATION AGENT

U.S. Bank National Association
Los Angeles, California

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\$48,040,000
EASTERN MUNICIPAL WATER DISTRICT
REFUNDING WATER AND WASTEWATER REVENUE BONDS, SERIES 2021B

INTRODUCTION

This Official Statement, including the front cover page and all appendices, provides certain information concerning the sale and delivery of the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2021B (the “**2021B Bonds**”).

The 2021B Bonds are being issued by Eastern Municipal Water District (the “**District**”) pursuant to the Indenture of Trust, dated as of June 1, 2021 (the “**Indenture**”), by and between the District and U.S. Bank National Association, as trustee (the “**Trustee**”), to provide funds to refund the outstanding Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018C (the “**2018C Bonds**”) and to pay costs of issuance of the 2021B Bonds, all as more fully described under the captions “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The principal of and interest on the 2021B Bonds are payable from Net Revenues, which consist of Net Water and Sewer Revenues of the District less all net amounts payable by the District on Parity Obligations of the District, as more fully described under the caption “SECURITY FOR THE 2021B BONDS.”

The obligation of the District to pay principal of and interest on the 2021B Bonds is on parity with the obligation of the District to make payments on certain obligations of the District currently outstanding in the aggregate principal amount of \$888,551,501. See Appendix A under the caption “THE DISTRICT—Debt Structure of the District.” See also the caption “SECURITY FOR THE 2021B BONDS—Additional Obligations.”

The District has entered into a purchase contract with Morgan Stanley & Co. LLC with respect to the issuance by the District of its Refunding Water and Wastewater Revenue Bonds, Series 2021A (the “**2021A Bonds**”). The 2021A Bonds are expected to be issued in the aggregate principal amount of \$50,590,000 on the date of issuance of the 2021B Bonds. If issued, the 2021A Bonds will be payable from Net Revenues on a parity with the 2021B Bonds. The proceeds of the 2021A Bonds will be applied to refund all of the outstanding Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018B (the “**2018B Bonds**”) and to terminate an interest rate swap agreement which hedges the 2018B Bonds.

The District may incur Parity Obligations, which are payable on a senior basis to the 2021B Bonds, subject to the terms and conditions of the Master Resolution (as such term is defined in Appendix C), as more fully described under the caption “SECURITY FOR THE 2021B BONDS—Additional Obligations—Issuance of Additional Parity Obligations under Master Resolution.” The District may also incur additional obligations which are payable from Net Revenues on a parity with the 2021B Bonds, subject to the terms and conditions of the Indenture, as more fully described under the caption “SECURITY FOR THE 2021B BONDS—Additional Obligations—Issuance of Additional Subordinate Obligations under Indenture.”

The 2021B Bonds will be initially issued in the Index Mode and will bear interest for each day during the Tender Period at a SIFMA Index Rate (the per annum rate of interest established on each SIFMA Index Determination Date equal to the sum of: (a) the SIFMA Index; and (b) the Index Spread applicable to the related Tender Period), in denominations of \$100,000 or any \$5,000 increment in excess of \$100,000. The 2021B Bonds will bear interest at a SIFMA Index Rate as described herein until the interest rate mode is changed as provided herein. So long as the 2021B Bonds bear interest at a SIFMA Index Rate, interest will be payable on the first Business Day of each calendar month, commencing July 1, 2021. The 2021B Bonds will be subject to mandatory tender for purchase on each Scheduled Mandatory Tender Date and Unscheduled Mandatory Tender Date and upon a Change in Mode. See the caption “THE 2021B BONDS.”

The 2021B Bonds will be subject to a Scheduled Mandatory Tender Date on July 1, 2024. The failure of the District to pay the Purchase Price of the 2021B Bonds upon any Scheduled Mandatory Tender will not constitute an Event of Default under the Indenture, but the 2021B Bonds will thereafter bear interest at a SIFMA Delayed Remarketing Period Rate until they are remarketed, redeemed or converted to another Mode. See the caption “THE 2021B BONDS—Mandatory Tender for Purchase—Scheduled Mandatory Tender for Purchase.” The 2021B Bonds are also subject to mandatory tender on an Unscheduled Mandatory Tender Date at the option of the District on any Business Day from and after the Call Protection Date for the related Tender Period as described in this Official Statement. The District is not obligated to pay the Purchase Price of the 2021B Bonds upon any Unscheduled Mandatory Tender and any such failure will not constitute an Event of Default under the Indenture. See the caption “THE 2021B BONDS—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase.”

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2021B BONDS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS DESCRIBED IN THE INDENTURE AND DOES NOT CONSTITUTE A DEBT OF ANY OF THE DISTRICT, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NOTWITHSTANDING ANYTHING IN THE INDENTURE OR THE 2021B BONDS, BUT SUBJECT TO THE PRIORITY OF PAYMENT WITH RESPECT TO MAINTENANCE AND OPERATION COSTS AND PARITY OBLIGATIONS, THE DISTRICT IS NOT REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OTHER THAN THE NET REVENUES, THE SUBORDINATE OBLIGATION PAYMENT FUND AND OTHER MONEYS PLEDGED UNDER THE INDENTURE FOR ANY OF THE PURPOSES MENTIONED IN THE INDENTURE, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2021B BONDS OR FOR ANY OTHER PURPOSE OF THE INDENTURE. NEVERTHELESS, THE DISTRICT MAY, BUT IS NOT REQUIRED TO, ADVANCE FOR ANY OF THE PURPOSES OF THE INDENTURE ANY FUNDS OF THE DISTRICT WHICH MAY BE MADE AVAILABLE TO IT FOR SUCH PURPOSES.

See the caption “SECURITY FOR THE 2021B BONDS—Limited Liability of District.”

This Official Statement describes the 2021B Bonds while in the Index Mode and bearing interest at a SIFMA Index Rate for the Tender Period commencing on June 10, 2021 only. There are significant differences in the terms of the 2021B Bonds while they are in a Mode other than the Index Mode and bear interest at a rate other than the SIFMA Index Rate. This Official Statement is not intended to provide information with respect to the 2021B Bonds in a Mode other than the Index Mode and bearing interest at a rate other than the SIFMA Index Rate, or for a Tender Period other than the Tender Period commencing on June 10, 2021. Owners and prospective owners of the 2021B Bonds should not rely on this Official Statement for information in connection with any Change in Mode, but should look solely to the offering document to be used in connection with any such Change in Mode.

Although the District has the right under the Indenture to enter into a Liquidity Facility in connection with 2021B Bonds, the District has not elected to enter into a Liquidity Facility in connection with the issuance of the 2021B Bonds. This Official Statement is not intended to provide information with respect to the 2021B Bonds supported by a Liquidity Facility. Owners and prospective owners of the 2021B Bonds should not rely on this Official Statement for information in connection with the 2021B Bonds supported by a Liquidity Facility, but should look solely to the offering document to be used in connection with any future entry of the District into a Liquidity Facility with respect to the 2021B Bonds.

The summaries and references to the Master Resolution, the Indenture, the Continuing Disclosure Certificate executed by the District as of the date of issuance of the 2021B Bonds (the “**Continuing**

Disclosure Certificate) and all other documents, statutes, reports and other instruments that are referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by the provisions of the full such document, statute, report or instrument, copies of which are available for inspection at the offices of the District in Perris, California or from the Trustee upon request and payment of duplication cost. The capitalization of any word that is not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Master Resolution or the Indenture and, as used herein, has the meaning given to it in the Master Resolution or the Indenture, as applicable. See Appendix C for summaries of certain provisions of the Master Resolution and the Indenture. Unless otherwise indicated, all financial and statistical information in this Official Statement has been provided by the District.

The District regularly prepares a variety of reports, including audits, budgets and related items. Any 2021B Bond Owner can obtain a copy of publicly available information from the District. Additional information concerning the Official Statement may be obtained by contacting the Trustee or the District's Chief Financial Officer, P.O. Box 8300, Perris, California 92572-8300, Telephone (951) 928-3777.

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

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

THE REFUNDING PLAN

The 2018C Bonds, which are currently outstanding in the aggregate principal amount of \$47,780,000, were issued pursuant to an Indenture of Trust, dated as of September 1, 2018 (the "**2018C Indenture**"), by and between the District and U.S. Bank National Association, as trustee (the "**2018C Trustee**"). The District plans to apply a portion of the proceeds of the 2021B Bonds to redeem all of the outstanding 2018C Bonds on or about the date of issuance of the 2021B Bonds.

To effect such redemption, the District will cause a portion of the proceeds of the 2021B Bonds to be deposited with the 2018C Trustee on the date of issuance of the 2021B Bonds. From such moneys, the District will cause the 2018C Trustee to redeem the 2018C Bonds maturing on or after the date of issuance of the 2021B Bonds at a redemption price equal to the principal amount thereof plus interest accrued with respect thereto, without premium, on or about the date of issuance of the 2021B Bonds.

As a result of the deposit and application of funds as provided above, all obligations with respect to the 2018C Bonds will be redeemed and defeased pursuant to the provisions of the 2018C Indenture as of the date of issuance of the 2021B Bonds.

The amounts held by the 2018C Trustee for the purposes described above are pledged solely to the redemption of the 2018C Bonds and will not be available for payments on the 2021B Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2021B Bonds and the redemption of the 2018C Bonds:

Sources⁽¹⁾:	Principal Amount of 2021B Bonds	\$48,040,000
	District Contribution ⁽²⁾	<u>3,351</u>
	Total Sources:	\$48,043,351
Uses⁽¹⁾:	Transfer to 2018C Trustee to Redeem 2018C Bonds	\$47,783,351
	Costs of Issuance ⁽³⁾	<u>260,000</u>
	Total Uses:	\$48,043,351

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

(2) Reflects District moneys delivered to pay accrued interest on the 2018C Bonds.

(3) Includes certain legal, financing, rating agency and Trustee fees, Underwriter's discount and printing costs.

THE 2021B BONDS

This Official Statement describes the 2021B Bonds while in the Index Mode and bearing interest at a SIFMA Index Rate for the Tender Period commencing on June 10, 2021 only. There are significant differences in the terms of the 2021B Bonds while they are in a Mode other than the Index Mode and bear interest at a rate other than the SIFMA Index Rate. This Official Statement is not intended to provide information with respect to the 2021B Bonds in a Mode other than the Index Mode and bearing interest at a rate other than the SIFMA Index Rate, or for a Tender Period other than the Tender Period commencing on June 10, 2021. Owners and prospective owners of the 2021B Bonds should not rely on this Official Statement for information in connection with any Change in Mode, but should look solely to the offering document to be used in connection with any such Change in Mode.

General

The 2021B Bonds will dated their date of delivery and will mature on July 1, 2046. The 2021B Bonds will be initially issued in the Index Mode for a Tender Period beginning on the date of delivery and (unless terminated earlier as described herein) ending on July 1, 2024. The 2021B Bonds will bear interest for each day during the Tender Period at a SIFMA Index Rate (the per annum rate of interest established on each SIFMA Index Determination Date equal to the sum of: (a) the SIFMA Index; and (b) the Index Spread applicable to the related Tender Period (which, for the initial Tender Period is +0.10%). All Outstanding 2021B Bonds will be in the same Mode.

While in the Index Mode, the 2021B Bonds will be subject to all of the terms of the Indenture governing the 2021B Bonds in the Index Mode, including provisions that require the Owners to tender their 2021B Bonds for purchase on the Scheduled Mandatory Tender Date and on other dates as described in this Official Statement, and provisions that permit the District to effect an Unscheduled Mandatory Tender (which Unscheduled Mandatory Tender is subject to successful remarketing as described under the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Failure to Meet Conditions”). See the captions “—Mandatory Tender for Purchase,” and “—Purchase of 2021B Bonds.”

While in the Index Mode, the 2021B Bonds are *not* subject to tender for purchase at the option of the Owners.

Interest on 2021B Bonds in the Index Mode will be calculated on the basis of a 365/366-day year for the actual number of days elapsed. Interest on 2021B Bonds in the Index Mode is payable on the first Business Day of each calendar month, commencing July 1, 2021, and as part of the Purchase Price of tendered

2021B Bonds on each Mandatory Purchase Date, Scheduled Mandatory Tender Date and Unscheduled Mandatory Tender Date (each, an “**Interest Payment Date**”).

The 2021B Bonds will be subject to an initial Scheduled Mandatory Tender on July 1, 2024.

Under the Indenture, the Mode for the 2021B Bonds may be changed from and after the applicable Call Protection Date for the related Tender Period from the Index Mode to another Mode as described herein. See the caption “—Changes in Mode.” The 2021B Bonds will be subject to mandatory tender for purchase on the date on which another Mode begins. See the caption “—Mandatory Tender for Purchase.” Under the Indenture, all of the 2021B Bonds outstanding at any time will be in the same Mode.

The 2021B Bonds will be delivered in the form of fully registered bonds and, when issued, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”). DTC will act as Bond Depository for the 2021B Bonds. While in the Index Mode, individual purchases of 2021B Bonds will be made in principal amounts of \$100,000 and integral multiples of \$5,000 in excess thereof. See the caption “—Book-Entry Only System” and Appendix E.

Calculation of Interest

During the Index Mode, payment will be made on each Interest Payment Date for unpaid interest accrued from and including the first day of each Tender Period (as determined in accordance with the provisions described under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for 2021B Bonds in Index Mode—Duration of Tender Period”) and, thereafter, the first Business Day of each month during such Tender Period (each, an “**Interest Accrual Date**”) to but excluding such Interest Payment Date; except that payment will be made on the initial Interest Payment Date for 2021B Bonds for unpaid interest accrued from and including the date of initial delivery of the 2021B Bonds. Notwithstanding any provision of the Indenture, at no time may the rate of interest on any 2021B Bond exceed the Maximum Rate (12% per annum).

Determination of Index Tender Rates and Index Rate Accrual Periods for 2021B Bonds in Index Mode

Determination of SIFMA Index Rate. During each Tender Period, no later than 11:00 a.m. * on the Business Day immediately preceding each Interest Payment Date while the 2021B Bonds bear interest in the Index Mode at a SIFMA Index Rate, the Trustee will deliver written notice to the District and the Remarketing Agent specifying the SIFMA Index Rate for each day of, and the aggregate amount of interest that accrued during, the Index Rate Accrual Period ending on the day preceding such Interest Payment Date, together with a detailed calculation of the foregoing. All percentages resulting from the calculation of the SIFMA Index Rate will be rounded, if necessary, to the nearest ten-thousandth of a percentage point with five hundred thousandths of a percentage point rounded upward, and all dollar amounts used in or resulting from such calculation of interest on the 2021B Bonds while bearing interest in an Index Mode will be rounded to the nearest cent (with one-half cent being rounded upward).

If the SIFMA Index Rate is not determined by the Trustee by 11:00 a.m. on the Business Day immediately preceding each Interest Payment Date, the Calculation Agent (if different than the Trustee) will determine the SIFMA Index Rate. If the SIFMA Index Rate is not determined by the Calculation Agent by 5:00 p.m. on the Business Day immediately preceding each Interest Payment Date, the interest rate on the Bonds will be the rate in effect for the immediately preceding SIFMA Index Reset Date until the Trustee next determines the SIFMA Index Rate as required under the Indenture.

Index Spread; Adjustment of Index Spread. During the initial Tender Period, which will commence on the date of delivery of the 2021B Bonds and end on July 1, 2024 (unless otherwise remarketed prior to such

* Unless otherwise expressly stated, all times referred to in this Official Statement are New York City time.

date through an Unscheduled Mandatory Tender), the Index Spread will equal +0.10%. With respect to subsequent Tender Periods, the Index Spread will be determined by the Remarketing Agent and adjusted as described under the captions “—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender” and “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender.” During each Tender Period, the Index Spread for the 2021B Bonds with respect to such Tender Period will apply to all 2021B Bonds.

Duration of Tender Period. The initial Tender Period will commence on June 10, 2021 and end on July 1, 2024 (unless otherwise remarketed prior to such date through an Unscheduled Mandatory Tender). Thereafter, each Tender Period for the 2021B Bonds will commence on the first to occur of: (i) the Scheduled Mandatory Tender Date of the immediately preceding Tender Period if all 2021B Bonds are actually purchased as described under the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender—Purchase of 2021B Bonds;” (ii) an Unscheduled Mandatory Tender Date in connection with any Unscheduled Mandatory Tender if all 2021B Bonds are actually purchased as described under the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Purchase of 2021B Bonds;” and (iii) the effective date of a Change in Mode to a Flexible Index Mode. Each Tender Period for the 2021B Bonds will terminate on the first to occur of: (a) the Scheduled Mandatory Tender Date; (b) an Unscheduled Mandatory Tender Date in connection with any Unscheduled Mandatory Tender if all 2021B Bonds are actually purchased as described under the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Purchase of 2021B Bonds;” (c) the first date on which the 2021B Bonds bear interest in a Mode other than the Index Mode; or (d) the date on which all 2021B Bonds are redeemed in accordance with the terms of the Indenture or all principal and accrued interest on all 2021B Bonds are otherwise paid in full.

Notwithstanding the foregoing: (I) if, on a Scheduled Mandatory Tender Date, the Purchase Price is not paid in full, the Tender Period will terminate and a SIFMA Delayed Remarketing Period will commence as described under the caption Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender—Consequences of a Scheduled Mandatory Tender Failure;” and (II) if, on the Unscheduled Mandatory Tender Date, the Purchase Price is not paid in full, the Tender Period will not terminate and will continue until such Tender Period is otherwise terminated in accordance with the terms of the Indenture.

The Call Protection Date for the initial Tender Period is January 1, 2024.

Mandatory Tender for Purchase

Scheduled Mandatory Tender for Purchase. Unless the 2021B Bonds subject to a Tender Period have been purchased (including in connection with a Change in Mode or an Unscheduled Mandatory Tender) or redeemed prior to the Scheduled Mandatory Tender Date for such Tender Period, the Owners of all of the 2021B Bonds will tender for purchase, and the District will purchase, all of the 2021B Bonds on the Scheduled Mandatory Tender Date for such Tender Period. Notice of each mandatory tender for purchase will be given by the Trustee by Mail or Electronic Notice to the Owners not less than seven days prior to the Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable (with copies thereof to be given to the other Notice Parties). The Trustee will give notice of each Scheduled Mandatory Tender as provided in the Indenture. With respect to the initial Tender Period, the Scheduled Mandatory Tender Date is July 1, 2024 and, with respect to each subsequent Tender Period, the Scheduled Mandatory Tender Date is determined as described under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for 2021B Bonds in Index Mode—Duration of Tender Period.” Failure of the District to pay the Purchase Price for the 2021B Bonds on a Scheduled Mandatory Tender Date does *not* constitute an Event of Default under the Indenture. See the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender—Consequences of a Scheduled Mandatory Tender Failure” below.

Unscheduled Mandatory Tender for Purchase. While the 2021B Bonds bear interest in the Index Mode, at its option, the District may require, during each Tender Period, the Owners of all (but not less than all) of the 2021B Bonds to tender their 2021B Bonds to the District for purchase, from the source of funds described under the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Purchase of 2021B Bonds” on any Business Day from and after the Call Protection Date of such Tender Period. To exercise such option while the 2021B Bonds are in the Index Mode, at least ten days prior to any Unscheduled Mandatory Tender Date, the District will provide Electronic Notice to the Remarketing Agent and the Trustee of its intent to schedule an Unscheduled Mandatory Tender Date and the Trustee will not less than seven days prior to the Unscheduled Mandatory Tender Date give notice to the Owners of the District’s intent to schedule an Unscheduled Mandatory Tender Date. The Trustee will give notice of each Unscheduled Mandatory Tender as provided in the Indenture. Except as provided under the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Failure to Meet Conditions,” the Trustee will pay to the Owners of the 2021B Bonds the Purchase Price on the related Unscheduled Mandatory Tender Date as provided in the fifth paragraph under the caption “—Purchase of 2021B Bonds.”

Except as provided under the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Failure to Meet Conditions,” the Trustee will pay to the Owners of the 2021B Bonds 100% of the principal amount of the 2021B Bonds purchased on such date, plus unpaid accrued interest, if any, to such date on the related Unscheduled Mandatory Tender Date from the proceeds of the remarketing of 2021B Bonds as described under the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Purchase of 2021B Bonds.” The failure to pay the purchase price of 2021B Bonds in connection with an Unscheduled Mandatory Tender does *not* constitute an Event of Default under the Indenture and the purchase of the 2021B Bonds subject to mandatory tender will be cancelled and the Index Mode Tender Period will continue. See the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Failure to Meet Conditions.”

Purchase and Remarketing

The Remarketing Agent will use its best efforts to remarket the 2021B Bonds which are to be purchased pursuant to the Indenture at, except as otherwise provided under the captions “—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender” and “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender” in connection with a Scheduled Mandatory Tender or an Unscheduled Mandatory Tender, respectively, the minimum interest rate available in the marketplace to permit the Remarketing Agent to remarket the 2021B Bonds on the Mandatory Purchase Date (as such term is defined in Appendix C under the caption “INDENTURE—DEFINITIONS; EQUAL SECURITY—Definitions”), Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable, at the principal amount thereof. 2021B Bonds subject to purchase on a Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date will be purchased from the Owners thereof at the Purchase Price, which will be payable solely from the following sources in the order listed, except that the Purchase Price in connection with an Unscheduled Mandatory Tender is payable solely from the source described in clause (i) below:

- (i) Immediately available funds on deposit in the Remarketing Proceeds Account; and
- (ii) Immediately available funds on deposit in the District Purchase Account.

See Appendix C under the caption “INDENTURE” for a description of the Remarketing Proceeds Account and the District Purchase Account.

At or before 3:00 p.m. on the Business Day immediately preceding each Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, the Remarketing Agent for the 2021B Bonds: (i) unless otherwise provided in arrangements with DTC, will deliver to the Trustee instructions

for registration of 2021B Bonds remarketed in accordance with the Indenture; and (ii) will give Electronic Notice to the Trustee and the District, specifying the aggregate principal amount of 2021B Bonds not remarketed which must be purchased by the District on such date, if any, and the amount of proceeds from the remarketing that will be delivered by the Remarketing Agent to the Trustee on such date, if any. If the 2021B Bonds are registered in the name of a Bond Depository or its nominee, and if the amount of such remarketing proceeds is sufficient to pay the Purchase Price of all 2021B Bonds to be purchased on the Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable, the Remarketing Agent may apply such remarketing proceeds to the appropriate accounts of such Bond Depository to effect payment of the Purchase Price of 2021B Bonds in accordance with the procedures established by such Bond Depository.

If the amount of proceeds from the remarketing delivered to the Trustee indicates that 2021B Bonds are required to be purchased from moneys provided by the District, the Trustee will give Electronic Notice to the District at or prior to 11:45 a.m. on such date specifying the information set forth in the Indenture. Upon receipt of such notice, on each Mandatory Purchase Date and Scheduled Mandatory Tender Date, the District is to deposit with the Trustee in the District Purchase Account, by 2:00 p.m. on such date, immediately available funds in an amount together with the remarketing proceeds, to enable the Trustee to pay the Purchase Price of the tendered 2021B Bonds (*except* as described in following two paragraphs). Unless otherwise provided in a Representation Letter, on each Mandatory Purchase Date, Scheduled Mandatory Tender Date and, if all 2021B Bonds are purchased, each Unscheduled Mandatory Tender Date, all 2021B Bonds which have been remarketed will be registered as directed by the Remarketing Agent.

The Trustee will pay from the funds specified in the Indenture the Purchase Price for each tendered 2021B Bond at or prior to 3:00 p.m. on the Mandatory Purchase Date, Scheduled Mandatory Tender Date or, if all 2021B Bonds are purchased, the Unscheduled Mandatory Tender Date, as the case may be; provided that the Purchase Price of 2021B Bonds in connection with an Unscheduled Mandatory Tender will be payable only from amounts in the Remarketing Proceeds Account. The Purchase Price of any 2021B Bond so tendered is payable only upon surrender of such 2021B Bond to the Trustee at its Corporate Trust Office for delivery of such 2021B Bond. Payment of the Purchase Price of any 2021B Bond tendered for purchase or otherwise purchased pursuant to DTC procedures will be made in immediately available funds or in such manner as the Bond Depository and the Trustee agree.

Notwithstanding any provision to the contrary contained in the Indenture, all tenders for purchase in connection with an Unscheduled Mandatory Tender are payable only from immediately available funds on deposit in the Remarketing Proceeds Account.

Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender

Remarketing of 2021B Bonds. During each Tender Period for the 2021B Bonds in the Index Mode, upon establishing the Index Spread for the next succeeding Tender Period (as described below under the caption “—Determination of Index Spread”), the Remarketing Agent will offer for sale and use its best efforts to sell in accordance with the Remarketing Agreement all 2021B Bonds at a price equal to the principal amount thereof, such that the Index Spread for the next Tender Period will be adjusted as described below under the caption “—Determination of Index Spread” to be the minimum fixed per annum interest rate spread to the SIFMA Index that is available in the marketplace. The Remarketing Agent will sell any 2021B Bonds tendered pursuant to a Scheduled Mandatory Tender at the principal amount thereof; provided that if the District delivers a Favorable Opinion of Bond Counsel, the District has the right to direct the Remarketing Agent to sell any 2021B Bonds tendered pursuant to a Scheduled Mandatory Tender at a discount or at a premium.

Determination of Scheduled Mandatory Tender Date. Unless the 2021B Bonds subject to a Tender Period have been purchased (including in connection with a Change in Mode or an Unscheduled Mandatory Tender) or redeemed prior to the Scheduled Mandatory Tender Date for such Tender Period, the District, by

direction to the other Notice Parties by Electronic Notice or telecopy not later than ten days before the Scheduled Mandatory Tender Date for each Tender Period, will determine the Scheduled Mandatory Tender Date for all 2021B Bonds for each Tender Period immediately following the purchase of 2021B Bonds pursuant to a Scheduled Mandatory Tender as provided in the Indenture. Such Scheduled Mandatory Tender Date may be any Business Day during the next Tender Period, except that the Scheduled Mandatory Tender Date may not be a date that is earlier than three months after the commencement of the Tender Period. If the District is required to deliver a written direction as provided above but fails to do so, then the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of 2021B Bonds will be the date that one year after the commencement of the Tender Period (unless such date is not a Business Day, in which case the Scheduled Mandatory Tender Date will be the first Business Day following such date).

Establishment of Call Protection Date. With respect to any Tender Period commencing on a Scheduled Mandatory Tender Date on which 2021B Bonds are purchased, the Call Protection Date will be the Tender Period Standard Date; provided that if the District delivers to the Trustee a Favorable Opinion of Bond Counsel and specifies such Call Protection Date in the direction as to the Scheduled Mandatory Tender Date, the District may determine that the Call Protection Date for such Tender Period will be any Business Day during the Tender Period. The Call Protection Date with respect to the initial Tender Period is January 1, 2024.

Determination of Index Spread. Unless the 2021B Bonds subject to a Tender Period have been purchased (including in connection with a Change in Mode or an Unscheduled Mandatory Tender) or redeemed prior to the Scheduled Mandatory Tender Date for such Tender Period, no later than 5:00 p.m. on the day that is two Business Days before the Scheduled Mandatory Tender Date for each Tender Period, the Remarketing Agent will determine the Index Spread with respect to the Tender Period immediately following such Scheduled Mandatory Tender Date. The Index Spread determined by the Remarketing Agent is to be equal to the minimum fixed spread to the SIFMA Index which, if borne by the 2021B Bonds, would enable the Remarketing Agent to sell all 2021B Bonds tendered or deemed tendered pursuant to the Scheduled Mandatory Tender on the Scheduled Mandatory Tender Date at a price equal to the principal amount thereof. With respect to all 2021B Bonds sold with an Index Tender Rate based on an Index Spread determined by the Remarketing Agent pursuant to the Indenture, the determination of the Index Spread so determined by the Remarketing Agent will be conclusive and binding on the Notice Parties and the Owners of the 2021B Bonds.

Purchase of 2021B Bonds. 2021B Bonds required to be purchased as described under caption “—Remarketing of 2021B Bonds” will be purchased from the Owners thereof, on the Scheduled Mandatory Tender Date at the Purchase Price from the sources and in the order of priority described under the caption “THE 2021B BONDS—Purchase of 2021B Bonds.”

Effect of a Successful Remarketing. If moneys on deposit with the Trustee are sufficient to pay the Purchase Price of 2021B Bonds to be purchased as described under caption “—Remarketing of 2021B Bonds” on a Scheduled Mandatory Tender Date, the following will occur:

(i) The Tender Period in effect immediately before such purchase will terminate on the Scheduled Mandatory Tender Date and a new Tender Period will commence on such date; and

(ii) The Index Spread with respect to the 2021B Bonds for the new Tender Period will be the Index Spread determined as described above under the caption “—Determination of Index Spread,” the Scheduled Mandatory Tender Date for the new Tender Period will be determined as described above under the caption “—Determination of Scheduled Mandatory Tender Date” and the Call Protection Date for the new Tender Period will be determined as described above under the caption “—Establishment of Call Protection Date.”

Consequences of a Scheduled Mandatory Tender Failure. Upon the occurrence of a Scheduled Mandatory Tender Failure on any Scheduled Mandatory Tender Date, the following will occur:

(i) The Trustee will promptly return all 2021B Bonds to the Owners thereof together with notice of such insufficiency and the Trustee and the Remarketing Agent will promptly return all remarketing proceeds to the persons providing such moneys without interest;

(ii) a SIFMA Delayed Remarketing Period (as such term is defined below) will commence on such date;

(iii) Notwithstanding anything in the Indenture to the contrary, during any SIFMA Delayed Remarketing Period, the 2021B Bonds will bear interest at the SIFMA Delayed Remarketing Period Rate as such term is defined below); and

(iv) No Event of Default under the Indenture will occur.

The term “**SIFMA Delayed Remarketing Period**” means the period from and including the applicable Scheduled Mandatory Tender Date on which all of the 2021B Bonds bearing interest at a SIFMA Index Rate subject to purchase on such date pursuant to the Indenture have not been purchased or remarketed to (but not including) the earlier to occur of: (a) the date on which all of such 2021B Bonds are successfully purchased or remarketed; or (b) the date on which all of such 2021B Bonds have been deemed to have been paid and are no longer Outstanding pursuant to the Indenture.

The term “**SIFMA Delayed Remarketing Period Rate**” means, during any SIFMA Delayed Remarketing Period, the following per annum interest rate on the 2021B Bonds:

<i>For the Period of Days from the applicable Scheduled Mandatory Purchase Date on which such SIFMA Delayed Remarketing Period commences</i>	<i>Interest Rate</i>
0-89 days	6.00%
90 days to 179 days	8.00%
180 days and thereafter	Maximum Rate

Notwithstanding any of the foregoing, the SIFMA Delayed Remarketing Period Rate may not exceed the Maximum Rate.

See the captions “—Delayed Remarketing Period,” “—Determination of Delayed Remarketing Period Rate,” “—Purchase and Sale of Bonds During Delayed Remarketing Period” and “—Termination of a Delayed Remarketing Period” below.

Notification of Scheduled Mandatory Tender Failure. On the date of a Scheduled Mandatory Tender Failure, the Trustee will deliver a notice to: (i) the District; (ii) the respective Owners of any 2021B Bonds at their addresses appearing on the Bond Register; (iii) the Remarketing Agent; and (iv) one or more Information Services, which states: (A) that a Scheduled Mandatory Tender Failure occurred; (B) that the Trustee will return all 2021B Bonds tendered on the Scheduled Mandatory Tender Date to the Owners thereof; and (C) that a SIFMA Delayed Remarketing Period has commenced on such date, and that the 2021B Bonds will bear interest at the SIFMA Delayed Remarketing Period Rate, as applicable.

Delayed Remarketing Period. During a SIFMA Delayed Remarketing Period, all of the 2021B Bonds will bear interest at the SIFMA Delayed Remarketing Period Rate. While bearing interest at the SIFMA Delayed Remarketing Period Rate during a SIFMA Delayed Remarketing Period, interest will be calculated on the basis of a 365/366 day year for the actual number of days elapsed. The 2021B Bonds will continue to be subject to optional redemption by the District pursuant to the Indenture; provided that notwithstanding

anything to the contrary in the Indenture, the Trustee will only be required to give five Business Days' notice of such redemption to the Owners of the 2021B Bonds to be redeemed. The District may, by notice to the Trustee and the Remarketing Agent, direct a Change in Mode of the 2021B Bonds in accordance with the Indenture; provided that the District and the Trustee will not be required to comply with the notice requirements described under the caption “—Changes in Mode” and instead will comply with the notice requirements described below under the caption “—Purchase and Sale of Bonds During Delayed Remarketing Period.” However, the 2021B Bonds will no longer be subject to mandatory sinking fund redemption by the District pursuant to the Indenture. During any SIFMA Delayed Remarketing Period, interest on the 2021B Bonds subject to such SIFMA Delayed Remarketing Period will be due and payable on the first Business Day of each month during such SIFMA Delayed Remarketing Period for such 2021B Bonds and on the last day of the SIFMA Delayed Remarketing Period. The Remarketing Agent will continue to be obligated to remarket the 2021B Bonds. If the 2021B Bonds are successfully remarketed, the Owners thereof will be obligated to tender, sell and deliver their 2021B Bonds to the Trustee.

Determination of Delayed Remarketing Period Rate. During each SIFMA Delayed Remarketing Period, no later than 11:00 a.m. on the Business Day immediately preceding each Interest Payment Date while the 2021B Bonds bear interest at the SIFMA Delayed Remarketing Period, the Calculation Agent will deliver written notice to the District, the Trustee (if the Trustee is not the Calculation Agent) and the Remarketing Agent, specifying the SIFMA Delayed Remarketing Period Rate for such 2021B Bonds, and the aggregate amount of interest on, the 2021B Bonds that is due and payable on such Interest Payment Date, together with a detailed calculation of the foregoing.

Purchase and Sale of Bonds During Delayed Remarketing Period. On each Business Day during a SIFMA Delayed Remarketing Period, the Remarketing Agent will continue to use its best efforts to remarket all of the 2021B Bonds as directed by the District. Once the Remarketing Agent for the 2021B Bonds has advised the District and the Trustee that it has a good faith belief that it is able to remarket all of the 2021B Bonds, the District will establish a new Mandatory Purchase Date and will direct the Trustee to give Electronic Notice to the Owners of the 2021B Bonds) not later than five Business Days prior to the date on which such 2021B Bonds are to be purchased, which notice will state: (i) the Mode applicable to such 2021B Bonds from and after the Mandatory Purchase Date; (ii) that such tendered 2021B Bonds will be subject to mandatory tender for purchase and specifying the Mandatory Purchase Date on which such purchase occurs; (iii) the procedures for such mandatory tender; (iv) the Purchase Price of such 2021B Bonds to be purchased; and (v) the consequences of a failed remarketing.

Termination of a Delayed Remarketing Period. During any SIFMA Delayed Remarketing Period, upon the purchase of all of the 2021B Bonds pursuant to the Indenture, the SIFMA Delayed Remarketing Period will terminate on the date on which such purchase occurs.

Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender

Remarketing of 2021B Bonds. Upon receipt of notice of an Unscheduled Mandatory Tender for the 2021B Bonds from the District or notice of intent to schedule an Unscheduled Mandatory Tender Date as described under the caption “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase,” the Remarketing Agent will offer for sale and use its best efforts to sell in accordance with the Remarketing Agreement all 2021B Bonds at a price equal to the principal amount thereof, such that the Index Spread for the next Tender Period will be adjusted as described below under the caption “—Determination of Index Spread” to be the minimum fixed per annum interest rate spread to the SIFMA Index available in the marketplace. The Remarketing Agent will sell any 2021B Bonds tendered pursuant to an Unscheduled Mandatory Tender at the principal amount thereof; provided that if the District delivers a Favorable Opinion of Bond Counsel, the District has the right to direct the Remarketing Agent to sell any 2021B Bonds tendered pursuant to an Unscheduled Mandatory Tender at a discount or at a premium.

Determination of Scheduled Mandatory Tender Date. The District, by direction to the other Notice Parties by Electronic Notice or teletype not later than ten days before each Unscheduled Mandatory Tender Date, will determine the Scheduled Mandatory Tender Date for the Tender Period immediately following the purchase of 2021B Bonds pursuant to the Indenture. Such Scheduled Mandatory Tender Date may be any Business Day, except that the Scheduled Mandatory Tender Date may not be a date that is earlier than three months after the commencement of the Tender Period.

Establishment of Call Protection Date. With respect to any Tender Period commencing on an Unscheduled Mandatory Tender Date and immediately following the purchase of 2021B Bonds pursuant to an Unscheduled Mandatory Tender, the Call Protection Date will be the Tender Period Standard Date; provided that, if the District delivers to the Trustee a Favorable Opinion of Bond Counsel and specifies such Call Protection Date in the direction as to the Scheduled Mandatory Tender Date, the District may determine that the Call Protection Date for such Tender Period will be any Business Day during such Tender Period.

Determination of Index Spread. The Remarketing Agent will, no later than 5:00 p.m. two Business Days before the Unscheduled Mandatory Tender Date, determine the Index Spread with respect to the Tender Period immediately following such Unscheduled Mandatory Tender Date. The Remarketing Agent will determine the Index Spread which will be equal to the minimum spread to the SIFMA Index which, if borne by the 2021B Bonds, would enable the Remarketing Agent to sell all 2021B Bonds tendered pursuant to the Unscheduled Mandatory Tender on the Unscheduled Mandatory Tender Date at a price equal to the principal amount thereof. With respect to all 2021B Bonds sold at an Index Tender Rate based on an Index Spread determined by the Remarketing Agent pursuant to the Indenture, the determination of the Index Spread so determined by the Remarketing Agent with respect to the 2021B Bonds will be conclusive and binding on the Notice Parties and the Owners of the 2021B Bonds.

Purchase of 2021B Bonds. Subject to the provisions described under the caption “—Failure to Meet Conditions,” the District will cause 2021B Bonds required to be purchased pursuant to an Unscheduled Mandatory Tender to be purchased on each Unscheduled Mandatory Tender Date from the Owners thereof at the Purchase Price from the source indicated under the caption “THE 2021B BONDS—Purchase of 2021B Bonds.”

Effect of a Successful Remarketing. If moneys on deposit with the Trustee are sufficient to pay the Purchase Price of 2021B Bonds to be purchased as described under the caption “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase” and all other conditions are satisfied, the following will occur:

(i) The Tender Period in effect immediately before such tender will terminate on such Unscheduled Mandatory Tender Date and a new Tender Period will commence on such date; and

(ii) The Index Spread with respect to the 2021B Bonds for the new Tender Period will be the Index Spread determined as described above under the caption “—Determination of Index Spread,” the Scheduled Mandatory Tender Date for the new Tender Period will be determined as described above under the caption “—Determination of Scheduled Mandatory Tender Date” and the Call Protection Date for the new Tender Period will be determined as described above under the caption “—Establishment of Call Protection Date.”

Consequences of an Unscheduled Mandatory Tender Failure. If any of the conditions of any Unscheduled Mandatory Tender are not satisfied as described under the captions “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase” and “—Failure to Meet Conditions,” then the District will not have any obligation to purchase any 2021B Bonds and no purchase of 2021B Bonds will occur. In such event, the following will occur:

(i) The Trustee will return all 2021B Bonds to the Owners thereof together with notice of the basis for such return and the Trustee and the Remarketing Agent will return all remarketing proceeds to the persons providing such moneys without interest;

(ii) The 2021B Bonds will continue to bear interest at the Index Tender Rate as in effect during such Tender Period without change or modification and the Tender Period then in effect will continue until terminated in accordance with the provisions set forth under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for 2021B Bonds in Index Mode—Duration of Tender Period”; and

(iii) No Event of Default under the Indenture will have occurred.

Rescission. While the 2021B Bonds are in the Index Mode, the District has the option to deliver to the Trustee at its Corporate Trust Office and the Remarketing Agent on or prior to 10:00 a.m. on the Business Day immediately preceding the Unscheduled Mandatory Tender Date for an Unscheduled Mandatory Tender, a notice to the effect that the District elects to rescind such Unscheduled Mandatory Tender. If the District so rescinds an Unscheduled Mandatory Tender, then no purchase will occur, the 2021B Bonds will continue to bear interest at the Index Tender Rate as in effect during the Tender Period then in effect, without change or modification, and the Tender Period then in effect will continue until terminated as described under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for 2021B Bonds in Index Mode—Duration of Tender Period.”

Failure to Meet Conditions. Any Unscheduled Mandatory Tender will be conditioned upon: (a) amounts sufficient to pay the Purchase Price of such mandatory tender being on deposit from remarketing proceeds, as described under the caption “—Purchase of 2021B Bonds” with the Trustee on the Unscheduled Mandatory Tender Date; and (b) in connection with any change in the Call Protection Date for the next succeeding Tender Period from the Tender Period Standard Date, the delivery by the District of the Favorable Opinion of Bond Counsel described under the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Establishment of Call Protection Date.” If on an Unscheduled Mandatory Tender Date the conditions described in the immediately preceding sentence are not satisfied, then no purchase of 2021B Bonds will occur, the 2021B Bonds will continue to bear interest at the Index Tender Rate as in effect during the Tender Period then in effect without change or modification and the Tender Period then in effect will continue until terminated as described under the caption “—Determination of Index Tender Rates and Index Rate Accrual Periods for 2021B Bonds in Flexible Index Mode—Duration of Tender Period.”

Failure by the District to pay or cause to be paid the Purchase Price of any 2021B Bonds tendered under the Unscheduled Mandatory Tender provisions of the Indenture for any reason does not constitute an Event of Default by the District under such Indenture. No such failure affects the District’s right to require Owners of 2021B Bonds to tender their 2021B Bonds as described under the caption “—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase” during the remainder of the Tender Period then in effect or during any subsequent Tender Period.

Changes in Mode

Changes to Mode other than Flexible Index Mode. Subject to the provisions of the Indenture, the District may effect a Change in Mode with respect to the 2021B Bonds other than a Change in Mode to the Flexible Index Mode (which is subject to the provisions that are described under the caption “—Election of Flexible Index Mode” below) by delivering to the Trustee, with copies to the other Notice Parties, not less than 12 days prior to the proposed Change in Mode, a Notice of Change in Mode stating: (A) the election to change the Mode to which the such 2021B Bonds are then subject (the “**Current Mode**”) to a different Mode (the “**New Mode**”), the type of which will be specified; (B) the date on which such 2021B Bonds are required to be purchased pursuant to the provisions described below under the caption “—Mandatory Purchase of 2021B

Bonds,” which will be the date on which the New Mode takes effect and a Business Day immediately following the end of an Adjustment Period or the last day of a Tender Period, or a Business Day on which the 2021B Bonds would be subject to redemption at the option of the District; and (C) a form of notice of mandatory tender for purchase satisfying the requirements described below under the caption “—Mandatory Purchase of 2021B Bonds.” In no event may a Change in Mode occur prior to the Call Protection Date while the 2021B Bonds bear interest in the Index Mode. The Call Protection Date for the initial Tender Period is January 1, 2024.

Not less than seven days prior to a proposed Change in Mode, and in reliance upon a Notice of Change in Mode, the Trustee will give written notice, in the form prepared by the District and delivered to the Trustee pursuant to the immediately preceding paragraph, to the Owners of the mandatory tender for purchase of all Outstanding 2021B Bonds as described below under the caption “—Mandatory Purchase of 2021B Bonds” in connection with the Change in Mode.

The New Mode will take effect only if the following conditions are satisfied: (i) by 9:00 a.m. on the date of the proposed Change in Mode: (1) if a Liquidity Facility is to be in effect during the New Mode, the interest portion of the Liquidity Facility is in an amount equal to or greater than the Liquidity Facility Interest Amount for the applicable Mode; and (2) if the New Mode is the Fixed Rate Mode, the Trustee and the Remarketing Agent have received a Fixed Rate Terms Certificate; and (ii) the Trustee has received sufficient remarketing proceeds of the 2021B Bonds in the New Mode to pay the Purchase Price of the 2021B Bonds subject to mandatory tender for purchase in connection with the Change in Mode. If such conditions are satisfied, then the New Mode will take effect on the date of the proposed Change in Mode.

If such conditions are not satisfied, then: (a) all Outstanding 2021B Bonds will be purchased on the Mandatory Purchase Date described below under the caption “—Mandatory Purchase of 2021B Bonds;” (b) all Outstanding 2021B Bonds will continue to be subject to the Index Mode and the Tender Period for all Outstanding 2021B Bonds will continue from and including the date on which the New Mode was to take effect to and including the date which was the Scheduled Mandatory Tender Date; and (c) the Trustee will, within five Business Days after the date of the proposed Change in Mode, send notice to the Notice Parties stating that the conditions to the Change in Mode have not all been satisfied and informing them of the consequences thereof, as described in the Indenture.

Upon conversion of the 2021B Bonds to the Fixed Rate Mode, the 2021B Bonds will be remarketed at the principal amount thereof, will mature on the same Maturity Date(s) and be subject to the same mandatory sinking fund redemption, if any, and optional redemption provisions, if any, as set forth in the Indenture; provided, however, that if the District delivers to the Trustee a Favorable Opinion of Bond Counsel, the District may elect to: (1) have some of the 2021B Bonds be Serial Bonds and some subject to sinking fund redemption even if such 2021B Bonds were not Serial Bonds or subject to mandatory sinking fund redemption prior to such change; (2) change the optional Redemption Dates and/or Redemption Prices set forth in the Indenture; and/or (3) sell some or all of the 2021B Bonds at a premium or a discount to the principal amount thereof.

Notwithstanding any other provision of the Indenture, no Change in Mode will be permitted at any time if the Adjustment Period then applicable to the 2021B Bonds extends through the day preceding the Maturity Date.

Election of Flexible Index Mode. Subject to the provisions of the Indenture, the District, by written Notice of Change in Mode to the other Notice Parties, may elect that there be a Change in Mode such that the 2021B Bonds will bear interest in a Flexible Index Mode. Such direction of the District will specify:

- (i) the election of a Flexible Index Mode;

(ii) the election of either the LIBOR Index Rate (as such term is defined in Appendix C under the caption INDENTURE—DEFINITIONS; EQUAL SECURITY—Definitions”) or the SIFMA Index Rate;

(iii) the effective date of the Change in Mode to a Flexible Index Mode, which will be: (1) a Business Day not earlier than the seventh day following the date such direction is given; or (2) a day on which the 2021B Bonds would otherwise be subject to optional redemption pursuant to the Indenture if such change did not occur;

(iv) the related Call Protection Date; and

(v) the Scheduled Mandatory Tender Date of the Tender Period commencing on the effective date of the Change in Mode to a Flexible Index Mode (provided that the Scheduled Mandatory Tender Date may not be earlier than three months after the commencement of the Tender Period).

Mandatory Purchase of 2021B Bonds

Except as otherwise provided in the Indenture with respect to an Unscheduled Mandatory Tender, each 2021B Bond which is subject to mandatory tender for purchase on a Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date will be purchased on such date at the applicable Purchase Price, but solely from the sources of payment described under the captions “—Purchase of 2021B Bonds,” “—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender—Purchase of 2021B Bonds” or “—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Purchase of 2021B Bonds,” as applicable. Subject to the provisions of the Indenture and unless otherwise provided in a Representation Letter, all 2021B Bonds required to be purchased on a Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date will be tendered for purchase by delivery to the Trustee at its Corporate Trust Office on or prior to the Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date. If the Owner of a 2021B Bond is required but fails to deliver a 2021B Bond required to be purchased in accordance with the Indenture and sufficient moneys from the sources described in the previous sentence are available to pay the Purchase Price of all 2021B Bonds to be purchased, such 2021B Bond will constitute an Undelivered Bond with the consequences described under the caption “—Undelivered Bonds.”

Undelivered Bonds

Any 2021B Bond which is subject to mandatory tender for purchase in accordance with the provisions described under the caption “—Mandatory Tender for Purchase,” in each case which is not tendered for purchase as required by the Indenture, will constitute an Undelivered Bond and will nonetheless be deemed to have been so tendered and, upon provision for payment of the Purchase Price thereof from the applicable funds specified under the caption “—Purchase of 2021B Bonds,” will be deemed to have been purchased on the Mandatory Purchase Date, the Scheduled Mandatory Tender Date or the Unscheduled Mandatory Tender Date, as applicable, after which no interest will accrue on the 2021B Bond for the benefit of the Owner required to tender the 2021B Bond from and after such Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable, and such Owner will have no rights under the Indenture as the Owner of the 2021B Bond except the right to receive the Purchase Price thereof from the funds available therefor, as described under the caption “—Purchase of 2021B Bonds.”

Refinancing and Related Risks

No assurance can be given that the District will have sufficient remarketing proceeds or funds on hand on July 1, 2024 or any Scheduled Mandatory Tender Date thereafter to pay the Purchase Price of the 2021B Bonds upon the mandatory tender thereof on such date. The District has not currently provided for any Liquidity Facility to support the payment of the Purchase Price upon mandatory tender of the 2021B Bonds.

In the event that the District does not have sufficient funds to pay the Purchase Price of the 2021B Bonds on such date from remarketing proceeds or other funds on hand, the District’s ability to pay such Purchase Price is dependent on the District’s ability: (i) to issue and sell refunding obligations to refund the 2021B Bonds prior to such date; or (ii) to provide for the Change in Mode of the 2021B Bonds to another Mode on or prior to such date and to receive sufficient remarketing proceeds upon such conversion to provide for payment of the Purchase Price of the 2021B Bonds upon the mandatory tender thereof.

A variety of events could prevent the District from accessing the municipal securities market, prohibit the District from issuing such refunding obligations or remarketing the 2021B Bonds or make the issuance of refunding obligations or the remarketing of the 2021B Bonds prohibitively expensive. No assurance can be given that the District will be able to effect such a refinancing or remarketing on sufficiently favorable terms. Failure of the District to provide sufficient funds to pay the Purchase Price on a Scheduled Mandatory Tender Date does *not* constitute an Event of Default under the Indenture. See the caption “—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender—Consequences of a Scheduled Mandatory Tender Failure.”

Redemption of 2021B Bonds

Mandatory Sinking Fund Redemption. The 2021B Bonds are subject to mandatory redemption in part (pro rata) on July 1, 2039 and on each July 1 thereafter, upon notice as described under the caption “—Notice of Redemption,” at a Redemption Price equal to 100% of the principal amount of the 2021B Bonds to be redeemed, without premium, in the years and principal amounts as follows:

<i>Mandatory Redemption Dates (July 1)</i>	<i>Principal Amount of Bonds to be Redeemed</i>
2039	\$5,285,000
2040	5,475,000
2041	5,675,000
2042	5,880,000
2043	6,095,000
2044	6,315,000
2045	6,540,000
2046*	6,775,000

* Final Maturity.

On or before each June 15 next preceding any mandatory sinking fund redemption date, the Trustee will proceed to select for redemption pro rata from all 2021B Bonds that are subject to mandatory sinking fund redemption at that time, an aggregate principal amount of such 2021B Bonds that is equal to the amount for such year as set forth in the table above and will call such 2021B Bonds or portions thereof for redemption and give notice of such redemption in accordance with the terms of the Indenture. See the subcaption “—Notice of Redemption” below.

Upon any purchase and cancellation of 2021B Bonds by the District, or any optional redemption of 2021B Bonds pursuant to the Indenture, an amount equal to the aggregate principal amount of 2021B Bonds so purchased or redeemed will be credited toward a part or all of any one or more yearly mandatory redemptions required by the above table, as directed in writing by the District, provided that such direction is received by the Trustee at least 45 days before the date of such mandatory redemption. Any such direction will state the years in which and the amounts by which such mandatory redemptions are to be reduced. The portion of any such mandatory redemption remaining after the deduction of any such amounts credited toward the same (or the original amount of any such mandatory redemption if no such amounts have been credited toward the same) will constitute the unsatisfied balance of such mandatory redemption for the purpose of the calculation of principal payments due on any future Principal Payment Date.

Optional Redemption. The 2021B Bonds in the Index Mode are subject to redemption at the option of the District in whole, or in part in Authorized Denominations, during any Tender Period, on any Business Day on or after the Call Protection Date for such Tender Period at a Redemption Price equal to 100% of the principal amount of the 2021B Bonds being redeemed plus unpaid accrued interest, if any, to such Redemption Date, without premium. The Call Protection Date for the Tender Period commencing June 10, 2021 is January 1, 2024.

Selection of 2021B Bonds for Redemption. If less than all of the 2021B Bonds are called for redemption, the District will designate the maturities and amounts from which the 2021B Bonds are to be redeemed. For so long as the 2021B Bonds are registered in book entry form and DTC or a successor securities depository is the sole registered owner of such 2021B Bonds, if fewer than all of such 2021B Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular 2021B Bonds to be redeemed will be selected on a pro rata pass-through distribution of principal basis in accordance with the operational arrangements of DTC then in effect, and if the DTC operational arrangements do not allow for redemption on a pro rata pass-through distribution of principal basis, all 2021B Bonds to be so redeemed will be selected for redemption in accordance with DTC procedures by lot; provided further that any such redemption must be performed such that all 2021B Bonds remaining outstanding will be in authorized denominations.

In connection with any repayment of principal of the 2021B Bonds pursuant to the pass-through distribution of principal as described above, the Trustee will direct DTC to make a pass-through distribution of principal to the owners of the 2021B Bonds. A form of Pro Rata Pass-Through Distribution of Principal Notice will be provided to the Trustee that includes a table of factors reflecting the relevant scheduled redemption payments and DTC's applicable procedures, which are subject to change.

For purposes of calculating pro rata pass-through distributions of principal, "pro rata" means, for any amount of principal or interest to be paid, the application of a fraction to such amounts where: (a) the numerator is equal to the amount due to the owners of the 2021B Bonds on a payment date; and (b) the denominator is equal to the total original par amount of the 2021B Bonds.

It is the District's intent that redemption allocations made by DTC with respect to the 2021B Bonds be made on a pro rata pass-through distribution of principal basis as described above. However, the District cannot provide any assurance that DTC, DTC's direct and indirect participants, or any other intermediary will allocate the redemption of such 2021B Bonds on such basis.

If the 2021B Bonds are not registered in book-entry form and if fewer than all of the 2021B Bonds of the same maturity and bearing the same interest rate are to be redeemed, the 2021B Bonds of such maturity and bearing such interest rate to be redeemed will be selected on a pro rata basis, and the particular 2021B Bonds of such maturity and bearing such interest rate to be redeemed will be selected by lot, provided that any such redemption must be performed such that all 2021B Bonds remaining outstanding will be in authorized denominations.

Notice of Redemption. Notice of redemption will be given by Mail or Electronic Notice by the Trustee to the Remarketing Agent, the Owners of any 2021B Bonds designated for redemption in whole or in part and to the Information Services and to the Bond Depository no less than 20 days nor more than 60 days prior to the Redemption Date. Each notice of redemption will state the Redemption Date, the redemption place and the Redemption Price, the maturity dates of the 2021B Bonds to be redeemed and will designate the numbers of the 2021B Bonds to be redeemed if less than all of the Outstanding 2021B Bonds of a maturity are to be redeemed, will (in the case of any 2021B Bond called for redemption in part only) state the portion of the principal amount thereof which is to be redeemed, and state that the interest thereon or portions thereof designated for redemption will cease to accrue from and after such Redemption Date and that on such Redemption Date there will become due and payable on each of the 2021B Bonds or portions thereof

designated for redemption the Redemption Price thereon. The failure of any Owner to receive such notice will not affect the validity of the redemption of any 2021B Bonds.

With respect to any notice of any optional redemption of 2021B Bonds, unless at the time such notice is given the Trustee holds sufficient available funds to pay the Redemption Price of the 2021B Bonds to be redeemed, such notice will state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the Redemption Price of the 2021B Bonds to be redeemed, and that if such moneys have not been so received said notice will be of no force and effect and the District will not be required to redeem such 2021B Bonds. In the event that a notice of redemption of 2021B Bonds contains such a condition and such moneys are not so received, the redemption of 2021B Bonds as described in the conditional notice of redemption will not be made and the Trustee will, within a reasonable time after the date on which such redemption was to occur, give notice to the persons who received such notice of redemption and in the manner in which the notice of redemption was given, that such moneys were not so received and that there will be no redemption of 2021B Bonds pursuant to such notice of redemption.

Any notice given as provided above will be conclusively presumed to have been given, whether or not actually received by any Owner. Failure by the Trustee to give notice pursuant to the Indenture to any one or more of the Remarketing Agent, Information Services or Bond Depository, or the insufficiency of any such notice, will not affect the sufficiency of the proceedings for redemption.

Partial Redemption of Bonds. Upon surrender of any 2021B Bond to be redeemed in part only, the Trustee will authenticate and deliver to the Owner thereof a new 2021B Bond or Bonds representing the unredeemed principal amount of the 2021B Bond so surrendered.

Effect of Redemption. If notice of redemption has been duly given as aforesaid and moneys for the payment of the Redemption Price of the 2021B Bonds or portions thereof to be redeemed are held by the Trustee, then on the Redemption Date designated in such notice the 2021B Bonds or portions thereof so called for redemption will become payable at the Redemption Price as specified in such notice; and from and after the Redemption Date so designated, interest thereon or portions thereof so called for redemption will cease to accrue, such 2021B Bonds or portions thereof will cease to be entitled to any benefit, protection or security under the Indenture and the Owners of such 2021B Bonds or portions thereof will have no rights in respect thereof except to receive payment of the Redemption Price.

Book-Entry Only System

One fully-registered 2021B Bond will be issued for each maturity of the 2021B Bonds in the principal amount of the 2021B Bonds of such maturity. Such 2021B Bonds will be registered in the name of Cede & Co. and will be deposited with DTC. So long as the ownership of the 2021B Bonds is registered in the name of Cede & Co., the term “Owner” as used in this Official Statement refers to Cede & Co. and not to the actual purchasers of the 2021B Bonds (the “**Beneficial Owners**”).

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, the 2021B Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The District cannot and does not give any assurances that DTC Participants or others will distribute payments on the 2021B Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix E for additional information concerning DTC.

SECURITY FOR THE 2021B BONDS

General

Under the Master Resolution, the District may incur obligations payable on a subordinate basis to Parity Obligations. Pursuant to the Indenture, the 2021B Bonds are payable from Net Revenues, which consist of the Net Water and Sewer Revenues less all net amounts payable by the District on the Parity Obligations, and from amounts held in certain funds and accounts described in the Indenture. Net Water and Sewer Revenues consist of Water and Sewer Revenues less Maintenance and Operation Costs (as such terms are defined in Appendix C). See the caption “—Pledge of Net Revenues.”

Currently, there are no Parity Obligations outstanding which are payable on a senior basis to the 2021B Bonds. However, the District may in the future choose to incur Parity Obligations which will be payable on a senior basis to the 2021B Bonds. See the caption “—Additional Obligations—Issuance of Additional Parity Obligations under Master Resolution.”

The 2021B Bonds are payable from Net Revenues on a parity with the Subordinate Obligations, which consist of certain Contracts and Parity Bonds (as such terms are defined in Appendix C). See Appendix A under the caption “THE DISTRICT—Debt Structure of the District.”

Nothing in the Indenture or in the 2021B Bonds affects or impairs the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2021B Bonds to the respective Owners of the 2021B Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Net Revenues and other assets therein pledged therefor, or affects or impairs the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2021B Bonds.

Pledge of Net Revenues

All of the Net Revenues, all amounts held in the Subordinate Obligation Payment Fund and any other amounts (including proceeds of the 2021B Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) have been irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2021B Bonds in accordance with their terms and the provisions of the Indenture, and the Net Revenues may not be used for any other purpose while the 2021B Bonds remain Outstanding; provided that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Master Resolution and the Indenture.

Such pledge, together with the pledge in favor of all other Contracts and Parity Bonds, constitutes a first lien on and security interest in Net Revenues and, subject to application of Net Revenues and all amounts on deposit in the Subordinate Obligation Payment Fund as permitted in the Indenture, in the Subordinate Obligation Payment Fund and other funds and accounts created under the Indenture for the payment of the principal of and interest, and the premium, if any, on the 2021B Bonds and all Contracts and Debt Service on Parity Bonds in accordance with the terms of the Indenture, and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act, and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether such parties have notice of the Indenture.

Flow of Funds

The Master Resolution provides for the allocation of Water and Sewer Revenues. Such provisions apply to the Parity Obligations (which are payable on a senior basis to the 2021B Bonds) and the Subordinate Obligations (which are payable on a parity with the 2021B Bonds), as well as to such other debts and obligations payable from Water and Sewer Revenues which are outstanding currently and which the District

may issue or incur in the future, including without limitation water and sewer revenue bonds, installment sale agreements, leases and contracts of indebtedness.

The Master Resolution establishes seven special funds which are held by the District: (i) a Water and Sewer Revenue Fund; (ii) a Rate Stabilization Fund; (iii) an Operating Fund; (iv) an Installment Payment Fund; (v) an Operating Reserve Fund; (vi) a Subordinate Obligation Payment Fund; and (vii) a General Reserve Fund. As described below, the 2021B Bonds are payable from amounts deposited in the Subordinate Obligation Payment Fund.

Under the Master Resolution, all Current Water and Sewer Revenues (as such term is defined in Appendix C) are deposited initially in the Water and Sewer Revenue Fund. The Water and Sewer Revenue Fund also receives transfers from the Rate Stabilization Fund. In order to avoid fluctuations in its water and sewer rates, the District may transfer portions of its Current Water and Sewer Revenues from time to time to the Rate Stabilization Fund and from time to time transfer moneys from the Rate Stabilization Fund to the Water and Sewer Revenue Fund. It is expected that the amounts to be transferred into and out of the Rate Stabilization Fund will be budgeted by the District on an annual basis in order to provide sufficient Water and Sewer Revenues to meet its capital improvement funding objectives and its covenant obligations under the Master Resolution.

Amounts in the Water and Sewer Revenue Fund are utilized to fund the Rate Stabilization Fund, to the extent determined by the District. Remaining amounts are to be set aside and deposited or transferred from the Water and Sewer Revenue Fund by the District, as the case may be, at the following times and in the following order of priority:

(i) Operating Fund. On or before the last Business Day of each month, the District will deposit in the Operating Fund such amount as the District estimates is required, together with amounts then on deposit therein, to provide for the payment of Maintenance and Operation Costs estimated to be paid through the next month.

(ii) Installment Payment Fund. On or before the last Business Day of each month, the District will deposit in the Installment Payment Fund a sum equal to the Monthly Accrued Debt Service on Parity Obligations for such month, plus a sum equal to all Reimbursement Payments (as such terms are defined in the Master Resolution) then due and payable, provided that no such deposit need be made if amounts on deposit in the Installment Payment Fund equal the amount of: (a) Payments due with respect to all Parity Obligations on the next succeeding Interest Payment Date (with respect to interest) and Principal Payment Date (with respect to principal) (as such terms are defined in the Master Resolution); (b) Other Parity Obligations Payments due with respect to all Other Parity Obligations on the next succeeding Other Party Obligation Payment Date (as such terms are defined in the Master Resolution); and (c) Reimbursement Payments then due and payable.

(iii) Bond or Contract or Other Parity Reserve Funds. On or before the last Business Day of each month, the District will transfer to each trustee for deposit in the applicable reserve fund for Parity Obligations an amount equal to the amount, if any, required to be deposited therein to build up or replenish such reserve fund for Parity Obligations as and to the extent required by the applicable instrument by which such Parity Obligations were issued.

(iv) Operating Reserve Fund. On or before the last Business Day of each month, the District will transfer to the Operating Reserve Fund an amount equal to 1/12th (or such greater fraction if the period is less than 12 months as may be appropriate) of the amount which is equal to the difference between the sum on deposit in said fund at the beginning of the then-current Fiscal Year and not less than 1/4 of the Maintenance and Operation Costs as set forth in the District's then-current annual budget; provided that, if any such monthly allocation is less than the amount required above for such month, the amount of the next succeeding monthly transfer will be increased by the amount of such deficiency.

(v) Subordinate Obligation Payment Fund. On or before the last Business Day of each month, the District will deposit in the Subordinate Obligation Payment Fund (from which the 2021B Bonds are paid) a sum equal to the amount required to be deposited under the Indenture, the indentures pursuant to which Parity Bonds were issued, Contracts and each other instrument securing Subordinate Obligations issued on a parity with the 2021B Bonds in the future, if any. See the caption “—Subordinate Obligation Payment Fund.”

(vi) Subordinate Obligation Reserve Funds. On or before the last Business Day of each month, the District will transfer to each trustee with respect to Subordinate Obligations for deposit in the debt service reserve fund, if any, with respect to such Subordinate Obligations an amount equal to the amount, if any, required to be deposited therein to build up or replenish such debt service reserve fund as and to the extent required by the applicable Subordinate Obligation or trust agreements or other instrument securing such Subordinate Obligation. No debt service reserve fund has been established in connection with the 2021B Bonds. See the caption “—No Reserve Fund” below.

(vii) General Reserve Fund. On the last Business Day of each month, the District will, after making each of the foregoing deposits and transfers, transfer all money remaining in the Water and Sewer Revenue Fund to the General Reserve Fund. The District may withdraw money in the General Reserve Fund for any lawful purpose of the District except to make transfers to the Rate Stabilization Fund.

Subordinate Obligation Payment Fund

In order to carry out and effectuate the pledge and lien contained in the Indenture, the District has agreed and covenanted that all Net Revenues will be received by the District in trust under the Indenture and will be deposited when and as received in a special fund designated as the “Subordinate Obligation Payment Fund,” which fund has been continued and which fund the District has agreed and covenanted to maintain and to hold separate and apart from other funds so long as the 2021B Bonds and any Contracts or Debt Service on Parity Bonds remain unpaid. Moneys in the Subordinate Obligation Payment Fund will be used and applied by the District as provided in the Indenture. All moneys in the Subordinate Obligation Payment Fund will be held in trust and will be applied, used and withdrawn for the purposes set forth in the Indenture. See the caption “—Flow of Funds” for a discussion of the deposit of Net Revenues into the Subordinate Obligation Payment Fund.

All moneys in the Subordinate Obligation Payment Fund will be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority:

(i) Interest and Principal Payments. Not later than the third Business Day prior to each Interest Payment Date, the District will, from the moneys in the Subordinate Obligation Payment Fund, transfer to the Trustee for deposit in the 2021B Payment Fund the payments of interest and principal on the 2021B Bonds due and payable on such Interest Payment Date. The District will also, from the moneys in the Subordinate Obligation Payment Fund, transfer to the applicable trustee for deposit in the respective payment fund or directly to the payee of such payment obligation, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Parity Bond or Contract.

(ii) Reserve Funds. On or before each Interest Payment Date, the District will, from the remaining moneys in the Subordinate Obligation Payment Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee or payee for such reserve funds and/or accounts, if any, as may have been established in connection with Parity Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement with respect thereto. No debt service reserve fund has been established in connection with the 2021B Bonds. See the caption “—No Reserve Fund” below.

(iii) Surplus. Moneys on deposit in the Subordinate Obligation Payment Fund on any date when the District reasonably expects that such moneys will not be needed for any of the purposes described in clauses (i) or (ii) above will first be applied to make any currently required termination payments with respect to any interest rate swap transactions and any remaining moneys will thereafter be deposited in the General Reserve Fund (as described under the caption “—Flow of Funds”), or, if the General Reserve Fund is no longer operative, such moneys may be expended by the District at any time for any purpose permitted by law.

All moneys held by the District in the Subordinate Obligation Payment Fund will be invested in Permitted Investments and the investment earnings thereon will remain on deposit in such fund, except as otherwise provided in the Indenture.

Limited Liability of District

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE 2021B BONDS IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET REVENUES AND AMOUNTS ON DEPOSIT IN CERTAIN FUNDS DESCRIBED IN THE INDENTURE AND DOES NOT CONSTITUTE A DEBT OF ANY OF THE DISTRICT, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NOTWITHSTANDING ANYTHING IN THE INDENTURE OR THE 2021B BONDS, BUT SUBJECT TO THE PRIORITY OF PAYMENT WITH RESPECT TO MAINTENANCE AND OPERATION COSTS AND PARITY OBLIGATIONS, THE DISTRICT IS NOT REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OTHER THAN THE NET REVENUES, THE SUBORDINATE OBLIGATION PAYMENT FUND AND OTHER MONEYS PLEDGED UNDER THE INDENTURE FOR ANY OF THE PURPOSES MENTIONED IN THE INDENTURE, WHETHER FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2021B BONDS OR FOR ANY OTHER PURPOSE OF THE INDENTURE. NEVERTHELESS, THE DISTRICT MAY, BUT IS NOT REQUIRED TO, ADVANCE FOR ANY OF THE PURPOSES OF THE INDENTURE ANY FUNDS OF THE DISTRICT WHICH MAY BE MADE AVAILABLE TO IT FOR SUCH PURPOSES.

No Reserve Fund

No debt service reserve fund or account has been established for the 2021B Bonds. None of the debt service reserve funds established in connection with other District obligations secure payment of the principal of and interest on the 2021B Bonds and such reserve funds may not be used to pay the principal of and interest on the 2021B Bonds.

No Acceleration of 2021B Bonds Upon Event of Default

Neither the Indenture nor the Master Resolution permit the 2021B Bonds to be accelerated upon an event of a default. See Appendix C under the caption “INDENTURE—EVENTS OF DEFAULT AND REMEDIES OF 2021B BOND OWNERS” for further information with respect to remedies available in the event of a default.

Rate Covenant

Indenture. Pursuant to the Indenture, to the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water and Sewer Service (as such term is defined in Appendix C) which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues equal to 115% of the Debt Service (as such term is defined in Appendix C) for such Fiscal Year. The District may make adjustments from time to

time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements. The District's ability to maintain and adjust such rates, fees and charges is subject to the provisions of Articles XIII C and XIII D of the California Constitution. See Appendix A under the caption "HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution."

Master Resolution. Pursuant to the Master Resolution, Net Water and Sewer Revenues must equal at least 110% of the sum of: (i) all debt service on Parity Obligations (obligations the payments of which are payable from the Net Water and Sewer Revenues on a senior basis to the 2021B Bonds); (ii) all deposits required to be made to the Operating Reserve Fund (as described under the caption "—Flow of Funds"); and (iii) all debt service on all Subordinate Obligations (including the 2021B Bonds).

Additional Obligations

Issuance of Additional Parity Obligations under Master Resolution. Pursuant to the Master Resolution, the District may at any time incur or issue additional Parity Obligations (obligations the payments of which are payable from the Net Water and Sewer Revenues on a senior basis to the 2021B Bonds), provided that:

(a) The District certifies that the District is not then in default under any Trust Agreement (as such term is defined in the Master Resolution) or with respect to any Parity Obligations; and

(b) Such Parity Obligation does not allow the declaration of payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there are no limitations on the ability of the District to execute Reimbursement Agreements.

(c) Long-Term Parity Obligations (as such term is defined in the Master Resolution) may be incurred provided that one of the following tests, as evidenced by a certificate of the District (together with supporting calculations prepared by the District), is satisfied:

(i) The Debt Service Coverage Ratio (as such term defined in the Master Resolution) for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account: (i) all Long-Term Parity Obligations then Outstanding; (ii) the Long-Term Parity Obligations then proposed to be incurred; and (iii) all decreases (but not increases), if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.10 times; or

(ii) (A) The Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant: (i) taking into account all Outstanding Long-Term Parity Obligations then Outstanding; (ii) but not taking into account the Long-Term Parity Obligations then proposed to be incurred; (iii) taking into account both the completion of all uncompleted Projects, if any, and the costs, if any, of financing such completion; and (iv) taking into account all increases and decreases, if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.15 times; and (B) taking into account the matters listed in clauses (i), (iii) and (iv) of part (A) above, plus the Long-Term Parity Obligations then proposed to be issued, the Debt Service Coverage Ratio for the first full Fiscal Year of the District following the completion of the Project, if any, being paid for with the proceeds of such proposed

Long-Term Parity Obligations, or following the incurrence of Long-Term Parity Obligations for refunding purposes, is expected to be not less than 1.15.

Certain other conditions and tests must be satisfied with respect to Parity Obligations that are not Long-Term Parity Obligations. For a summary of such conditions and tests, see Appendix C under the caption “MASTER RESOLUTION—ADDITIONAL BONDS AND CONTRACTS AND OTHER PARITY OBLIGATIONS.”

Issuance of Additional Subordinate Obligations under Master Resolution. The Master Resolution does not establish conditions to the issuance of additional Subordinate Obligations payable on a parity with the 2021B Bonds.

Issuance of Additional Subordinate Obligations under Indenture. Pursuant to the Indenture, the District may at any time execute any Contract or issue any Parity Bonds, as the case may be, payable on a parity with the 2021B Bonds, in accordance with the Indenture; provided that:

(a) The Net Revenues for any consecutive 12 calendar month period during the 18 calendar month period, or for the most recent audited Fiscal Year, preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Parity Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant (as such terms are defined in Appendix C) on such calculation on file with the District, produce a sum equal to at least 115% of the Debt Service for such 12 calendar month period or Fiscal Year; and

(b) The Net Revenues for any consecutive 12 calendar month period during the 18 calendar month period, or for the most recent audited Fiscal Year, preceding the date of the execution of such Contract or the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Parity Bonds, as the case may be, including adjustments to give effect as of the first day of such 12 calendar month period or Fiscal Year to increases or decreases in rates and charges for the Water and Sewer Service approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the District, produce a sum equal to at least 115% of the Debt Service for such 12 calendar month period or Fiscal Year plus the Debt Service which would have accrued on any Contracts executed or Parity Bonds issued since the end of such Fiscal Year assuming that such Contracts had been executed or Parity Bonds had been issued at the beginning of such Fiscal Year, plus the Debt Service which would have accrued had such Contract been executed or Parity Bonds been issued at the beginning of such 12 calendar month period or Fiscal Year.

(c) Notwithstanding the foregoing, Parity Bonds or Contracts may be issued or incurred to refund outstanding Parity Bonds or Contracts without complying with clauses (a) or (b) above if, after giving effect to the application of the proceeds thereof, total Debt Service (as such term is defined in the Indenture) will not be increased more than 5% in any Fiscal Year in which Parity Bonds or Contracts (outstanding on the date of issuance or incurrence of such refunding Parity Bonds or Contracts, but excluding such refunding Parity Bonds or Contracts) not being refunded are outstanding.

THE DISTRICT

See Appendix A for financial, statistical and operating information regarding the District and its service area and Appendix B for the District’s audited financial statements for the Fiscal Year ended June 30, 2020.

FINANCIAL STATEMENTS

The general purpose financial statements of the District included in Appendix B to this Official Statement have been audited by Davis Farr LLP, Irvine, California, independent certified public accountants

(the “**Auditor**”). The audited financial statements, including the footnotes thereto, should be reviewed in their entirety. The Auditor has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 12, 2020. The District represents that there has been no material change to its financial condition since June 30, 2020 that is not otherwise disclosed in this Official Statement.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters in connection with the issuance of the 2021B Bonds will be passed upon for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel to the District (“**Bond Counsel**”), for the District by Olivarez Madruga Lemieux O’Neill, LLP, Westlake Village, California, General Counsel to the District, for the Underwriter by its counsel, Nixon Peabody LLP, Los Angeles, California, and for the Trustee by its counsel. Bond Counsel undertakes no responsibility to the purchasers of the 2021B Bonds for the accuracy, completeness or fairness of this Official Statement. Bond Counsel represents the Underwriter from time to time on matters unrelated to the 2021B Bonds.

The fees paid to Bond Counsel, Underwriter’s counsel and the Municipal Advisor are contingent upon the issuance of the 2021B Bonds.

LITIGATION

General

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their offices, seeking to restrain or to enjoin the issuance and sale of the 2021B Bonds or in any way contesting or affecting the validity or enforceability of the 2021B Bonds, the Indenture, the Master Resolution or any action of the District contemplated by any of said documents.

The District is engaged in routine litigation incidental to the conduct of its business. However, the District believes that such litigation, if determined adversely to the District, would not materially adversely affect the ability of the District to pay the principal of, interest on, or Purchase Price of the 2021B Bonds when due.

SDCWA Litigation

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

SDCWA alleged in the lawsuits that MWD’s water rates improperly allocated certain MWD costs, resulting in an overcharge to SDCWA. SDCWA alleged that such costs should be reclassified and reallocated so that MWD’s remaining members, including the District, bear a larger share of the financial burden. On April 24, 2014, the trial court (San Francisco Superior Court) issued a final statement of decision in favor of SDCWA, finding no substantial evidence in the administrative record to support the inclusion of certain cost elements in MWD’s water rates (in particular, MWD’s System Access Rate and Water Stewardship Rate).

MWD and the member agencies appealed the trial court decision. On June 21, 2017, the California Court of Appeal issued an opinion (*San Diego County Water Authority v. Metropolitan Water District of Southern California* (2017) 12 Cal. App. 5th 1124, as modified on denial of rehearing (July 18, 2017), review denied (Sept. 27, 2017)), reversing the judgment and vacating a peremptory writ of mandate.

On appeal, the central issue in dispute was cost allocation of charges imposed by MWD for transporting (“**wheeling**”) water purchased from a third party. The Court of Appeal held that the inclusion of MWD’s system-wide transportation costs in the calculation of its wheeling rate, including charges paid to the State Water Project, did not violate the wheeling statutes or the terms of the Exchange Agreement. The court affirmed the trial court’s finding that the wheeling rate cannot include MWD’s Water Stewardship Rate (which was designed to fund a water conservation program) because the Water Stewardship Rate is supply-related, not transportation-related, and its inclusion as a component of the wheeling rate and Exchange Agreement transportation rates was unlawful. The Court of Appeal also found that SDCWA is entitled to recover the overcharges that resulted from inclusion of such charges in MWD’s water rates.

MWD and SDCWA filed motions for entry of judgment as to the 2010 and 2012 actions, which were heard by the San Francisco Superior Court on July 30, 2020. On August 12, 2020, the court issued a Peremptory Writ of Mandate and Judgment pertaining to the 2010 and 2012 actions. Judgment was entered for SDCWA on the rate challenge, breach of contract, preferential rights and rate structure integrity causes of action. Judgment was entered for MWD on the breach of fiduciary duty and breach of the covenant of good faith and fair dealing causes of action. The Peremptory Writ of Mandate directs MWD to enact only legal wheeling and transportation rates in the future.

On September 11, 2020, MWD filed a notice of appeal of the court’s August 12, 2020 Judgment and Peremptory Writ of Mandate. This appeal is currently pending. In addition, on January 13, 2021, following a December 16, 2020 hearing, the court issued an order on MWD and SDCWA’s cross-motions for determination of the prevailing party under the Exchange Agreement in the 2010 and 2012 cases, finding that SDCWA is the prevailing party on the contract and is entitled to its attorneys’ fees and costs thereunder.

On August 25, 2020, the court granted SDCWA’s motions to lift the stays and file amended petitions/complaints in the 2014 and 2016 cases, and on August 28, 2020, SDCWA filed amended petitions/complaints in such cases. On September 28, 2020, MWD filed a demurrer to and motion to strike portions of SDCWA’s First Amended Petition/Complaint in the 2014 action, and a demurrer to and motion to strike portions of SDCWA’s Second Amended Petition/Complaint in the 2016 action. The real parties in interest in the action, including the District, filed joinders in these demurrers and motions to strike. On February 16, 2021, following a February 10, 2021 hearing, the court issued an order denying MWD’s demurrers and motions to strike, allowing SDCWA to retain the contested allegations in its petitions/complaints. The petitions/complaints contain new claims pertaining to “offsetting benefits” allegedly owed to SDCWA under the wheeling statutes.

On November 13, 2020, the court issued an order designating the 2018 case complex and assigning the matter to a judge at the San Francisco Superior Court.

As a result of the Court of Appeal’s decision, and depending upon the actions of the trial court in the pending 2014, 2016 and 2018 cases, the District’s MWD water charges could increase. Because the District’s policy is to pass MWD water rate increases through to its customers, the District does not believe that such an increase by MWD would have a material adverse effect on the ability of the District to pay debt service on the 2021B Bonds when due.

Water Rate Litigation

On February 19, 2020, a class action complaint and petition for writ of mandate (collectively, the “**Water Rate Complaint**”) was filed in the matter of *Kessner et al. v. City of Santa Clara et al.* in the Superior

Court of California, County of Santa Clara (the “**Superior Court**”), on behalf of 81 purported customer classes (collectively, “**Plaintiffs**”), challenging the rates of 82 public water suppliers, including the District. The Water Rate Complaint alleges that the named defendants and respondents (collectively, “**Defendants**”) unlawfully set water rates for retail customers that exceed the cost of service, in violation of Proposition 218. See Appendix A under the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution” for a discussion of Proposition 218.

As pertinent to the District, Plaintiffs are challenging Defendants’ retail water rates on the ground that they allegedly subsidize water service provided for general governmental purposes, including “subsidized public fire hydrant service.”

On March 9, 2020, the Superior Court issued an order deeming the case complex and staying discovery and responsive pleading deadlines, which stay continues as of May 2021.

Plaintiffs filed a Petition to Coordinate the Water Rate Complaint with other Proposition 218 cases against water agencies in California. On October 19, 2020, the Superior Court denied the Petition. The Superior Court held Case Management Conferences on December 3, 2020 and April 15, 2021 and has ordered a preliminary set of briefing on issues of venue, jurisdiction and joinder. On January 15, 2021, the Superior Court issued an Order appointing a Defendant Liaison Committee in the matter. Per the Order, the Committee, among other duties, will facilitate discussions among all counsel for Defendants regarding issues in the case, scheduling of hearings, joint case management statements and other relevant matters. A hearing on issues of venue, jurisdiction and joinder was held on May 20, 2021 and another Case Management Conference is scheduled for June 24, 2021.

The District is unable to predict the outcome of this litigation or the timing of any resolution. However, the District believes that its water rates were adopted in compliance with Proposition 218 and does not currently expect the Water Rate Complaint to have a material adverse effect on its ability to pay debt service on the 2021B Bonds when due.

The District notes that, in fall 2020, the Governor of California signed Senate Bill 1386 (“**SB 1386**”), which adds provisions to the California Government Code establishing that the costs of water service chargeable to property owners properly include the cost of infrastructure, e.g., fire hydrants, that provide fire protection for nearby property. Although SB 1386 is a legislative statute and does not directly affect Proposition 218 or other State Constitutional provisions, the signing of SB 1386 into law may assist the District’s defense of the Water Rate Complaint.

CONTINUING DISCLOSURE UNDERTAKING

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and Beneficial Owners of the 2021B Bonds to provide certain financial information and operating data relating to the District by each February 1 following the end of the District’s Fiscal Year (currently its Fiscal Year ends on June 30) (the “**Annual Report**”), and to provide notices (each, an “**Event Notice**”) of the occurrence of certain enumerated events. The Annual Report and any Event Notice will be filed by the District with EMMA, which can be found on the Internet at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and any Event Notice is set forth in Appendix F. These covenants have been made in order to assist the Remarketing in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934 (the “**Rule**”).

The District believes that it is currently in material compliance with all of its continuing disclosure undertakings. However, previously:

(1) The Western Riverside Water and Wastewater Financing Authority (the “**Western Riverside Authority**”) did not timely file a significant event notice with respect to a rating upgrade with respect to such entity’s Local Agency Revenue Refunding Bonds, 2016 Series A.

(2) The District’s Annual Reports for Fiscal Year 2015 with respect to the Western Riverside Authority’s Revenue Bonds, Series 2005A and Series 2009A (which are general obligations of the District) were filed after the date required for such filings, in each case after December 31 of the applicable calendar year.

(3) The District did not timely file all significant event notices of changes in the ratings of certain outstanding Subordinate Obligations resulting from changes in ratings to the bond insurers which insured such obligations, changes in the short-term ratings of providers of liquidity facilities for certain Subordinate Obligations and upgrades in the underlying ratings for certain Subordinate Obligations.

The event notices that are described in paragraphs (1) and (3) above have been filed as of the date of this Official Statement.

On April 30, 2014, the District’s Board adopted continuing disclosure policies and procedures. Such policies and procedures were updated and incorporated into the District’s Comprehensive Debt Management Policy on January 18, 2017. See Appendix A under the caption “THE DISTRICT—District Debt Policy.” In addition, District staff have undergone training to ensure compliance with continuing disclosure undertakings in the future.

COVID-19 OUTBREAK

The spread of the novel strain of coronavirus called SARS-CoV-2, which causes the disease known as COVID-19 (“**COVID-19**”), and local, State and federal actions in response to COVID-19, have impacted the District’s operations and finances. In response to COVID-19 infections and fatalities, health officials and experts have recommended, and some governments have mandated, a variety of responses ranging from travel bans and social distancing practices to complete shutdowns of certain services and facilities since March 2020. The World Health Organization declared the COVID-19 outbreak to be a pandemic and on March 4, 2020, as part of the State’s response to address the outbreak, the Governor declared a state of emergency. On March 13, 2020, the President declared a national emergency, freeing up funding for federal assistance to state and local governments. Many school districts across the State have temporarily closed some or all school campuses (including schools within the District’s service area) in response to local and State directives or guidance.

On March 19, 2020, the Governor issued Executive Order N-33-20, a mandatory Statewide shelter-in-place order applicable to all non-essential services. Certain aspects of the shelter-in-place directives have been extended indefinitely until indicators for modifying the stay-at-home order have been met. On April 6, 2020, Riverside County also declared a state of emergency in response to the COVID-19 outbreak. On May 4, 2020, the Governor issued an executive order informing local health jurisdictions and industry sectors that they could gradually re-open under new modifications and guidance provided by the State. A phased re-opening of various sectors has been underway in accordance with a four-stage re-opening plan that is currently expected to end with a full reopening of the economy on June 15, 2021 should sufficient progress be made in curtailing COVID-19 infections. Although pursuant to the re-opening plan, some restrictions on activities have been eased, restrictions have also been re-imposed in various jurisdictions (including Riverside County) as local conditions warrant, and such restrictions could be expanded as the pandemic continues.

On March 27, 2020, the President signed the \$2.2 trillion Coronavirus Aid, Relief, and Economic Stabilization Act (the “**CARES Act**”) which provides, among other measures, \$150 billion in financial assistance to states, tribal governments and local governments to provide emergency assistance to those most significantly impacted by COVID-19. Under the CARES Act, local governments are eligible for

reimbursement of certain costs which are expended to address the impacts of the pandemic. The District does not expect to receive CARES Act funding, but is tracking its pandemic-related expenses and may elect to apply for Federal Emergency Management Act funding in the future. The District cannot predict what State and/or federal funding or other relief it will ultimately receive. Any funds received by the District under the CARES Act are not available for payment of the Installment Payments and cannot be used to backfill any District revenue losses related to COVID-19.

On December 27, 2020, the President signed the \$900 billion Coronavirus Response and Relief Supplemental Appropriations Act. Although the act did not provide additional financial assistance to state and local governments, it did extend the deadline (to October 2021) for them to use unspent funds that were previously approved under the CARES Act.

On March 11, 2021, the President signed the American Rescue Plan Act of 2021 (the “**ARP Act**”), a \$1.9 trillion economic stimulus package designed to help the United States’ economy recover from the adverse impacts of the COVID-19 pandemic. The ARP Act includes approximately \$350 billion in aid to state and local governments such as the District, consisting of both direct funding from the United States Department of Treasury and program moneys that will flow from other federal agencies. Half of the aid to state and local governments will be distributed in spring 2021, with the other half following in 2022. County governments have been allocated a total of approximately \$65.1 billion, and the District expects the majority of any amounts that it receives under the ARP Act to come from moneys allocated to the County for the benefit of special districts. The allocation of amounts appropriated by the ARP Act has not yet been announced, and the District can provide no assurance that it will receive any funding pursuant to the ARP Act, or the amount or timing of any such funding if received, until such allocations have been announced. Any ARP Act funds received by the District must be used: (i) to assist households, small businesses, nonprofit entities and impacted industries including hospitality, travel and tourism; (ii) to pay a salary premium to essential workers up to \$13 an hour with an annual cap of \$25,000; (iii) to cover for lost revenue in providing services; and (iv) to make investments in water, sewer or broadband infrastructure.

The effects of the COVID-19 outbreak and governmental actions responsive to it are altering the behavior of businesses and people in a manner that is having significant negative impacts on global and local economies. In addition, financial markets in the United States and globally have experienced significant volatility attributed to COVID-19 concerns. Volatility in the financial markets has caused CalPERS’ earnings to fall below its investment targets in Fiscal Year 2020, which could result in increases in the District’s unfunded pension liability and future pension costs, commencing in Fiscal Year 2023. See Appendix A under the caption “**HISTORICAL FINANCIAL OPERATIONS—Pension Plan.**” The outbreak has resulted in increased pressure on State and local finances, as budgetary resources are directed towards containing the pandemic and tax revenues sharply decline. As of the date of this Official Statement, the United States, including Riverside County, continues to experience COVID-19 cases and deaths.

In response to the COVID-19 outbreak, the District has staggered employee shifts, enabled certain employees to telecommute and moved employees to multiple locations in order to prevent large gatherings of personnel at any one time and maintain their health and the District’s water and wastewater operations. In addition, on-site personnel are wearing masks and practicing social distancing while working. Access to the District’s administrative offices and in-person access to Board meetings have been restricted. The District does not foresee an impact on its operations at this time as a result of the COVID-19 outbreak.

In addition, the Governor suspended utility service shutoffs for the duration of the state of emergency declared by the State on March 4, 2020, and the District will not seek to collect late fees or penalties. Although no service charges are being forgiven, the District’s accounts receivable amount has increased to \$5,649,936 as of May 1, 2021 as a result of the foregoing policy and the District has made low income assistance programs available to delinquent customers. See the caption “**HISTORICAL FINANCIAL OPERATIONS—Operating Revenue—Collection Procedures.**”

The COVID-19 outbreak is ongoing, and the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. Although the District continues to monitor the impact of COVID-19 on its operations and finances closely, the ultimate impact of the outbreak to the District is unknown. The District reports that Fiscal Year 2020 Water and Sewer System revenues and expenses were not materially affected by the COVID-19 outbreak, and the District does not expect Fiscal Year 2021 Water and Sewer System revenues or expenses to be materially affected by the COVID-19 outbreak.

As noted in Appendix A under the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues,” the District’s water and wastewater rates include fixed rates that are payable without regard to the amount of water used, which mitigates a portion of the impact of reduced water use by customers, if any. The District experienced increases in water demand in calendar year 2020 due to the high percentage of residential customers within the District’s service area. Also, many commercial and industrial customers in the District’s service area have been deemed essential businesses during the emergency shutdowns and consumption has remained at near historic levels. Furthermore, the District does not rely heavily on the tourism and entertainment industries. Notwithstanding the foregoing, the District continues to actively monitor customer usage, revenues and delinquencies so that the impacts of the pandemic can be anticipated. See Appendix A under the caption “PROJECTED OPERATING RESULTS.”

TAX MATTERS

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2021B Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2021B Bonds is exempt from State personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest on the 2021B Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the “**Code**”), that must be satisfied subsequent to the issuance of the 2021B Bonds to assure that interest on the 2021B Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2021B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2021B Bonds. The District has covenanted to comply with all such requirements.

The Internal Revenue Service (the “**IRS**”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2021B Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2021B Bonds might be affected as a result of such an audit of the 2021B Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2021B Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2021B Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2021B BONDS THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2021B BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2021B BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2021B BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2021B BONDS STATUTORY CHANGES

WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2021B BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2021B BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date thereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2021B Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any 2021B Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest on the 2021B Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the 2021B Bonds and the accrual or receipt of interest on the 2021B Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2021B Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2021B Bonds.

Should interest on the 2021B Bonds become includable in gross income for federal income tax purposes, the 2021B Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

MUNICIPAL ADVISOR

The District has retained PFM Financial Advisors LLC, Los Angeles, California, as its independent registered municipal advisor (the "**Municipal Advisor**") in connection with the issuance of the 2021B Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business, has assigned the 2021B Bonds a rating of "AA+" and Fitch Ratings, Inc. has assigned the 2021B Bonds a rating of "AA+."

Future events, including the impacts of the COVID-19 pandemic that is described under the caption "COVID-19 OUTBREAK," could have an adverse impact on the ratings of the 2021B Bonds, and there is no assurance that any credit rating that is given to the 2021B Bonds will be maintained for any period of time or that a rating may not be qualified, downgraded, lowered or withdrawn entirely by a rating agency if, in the judgment of such rating agency, circumstances so warrant, nor can there be any assurance that the criteria required to achieve a rating on the 2021B Bonds will not change during the period that the 2021B Bonds remain outstanding. Any such qualification, downgrade, lowering or withdrawal of the ratings may have an

adverse effect on the market price of the 2021B Bonds. The ratings reflect only the current views and current rating criteria of the applicable rating agencies (which views and criteria could change at any time), and an explanation of the significance of such ratings may be obtained from the applicable rating agencies. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the District that is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

The District has covenanted in the Continuing Disclosure Certificate to file notices of any rating changes on the 2021B Bonds with EMMA. See the caption “CONTINUING DISCLOSURE” and Appendix F. Notwithstanding such covenant, information relating to rating changes on the 2021B Bonds may be publicly available from the rating agencies prior to such information being provided to the District and prior to the date by which the District is obligated to file a notice of rating change. Purchasers of the 2021B Bonds are directed to the rating agencies and their respective websites and official media outlets for the most current ratings with respect to the 2021B Bonds after the remarketing of the 2021B Bonds.

In providing a rating on the 2021B Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology which may not reflect the provisions of the Indenture or the Master Resolution. The District makes no representations as to any such calculations, and such calculations should not be construed as a representation by the District as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of debt service or for any other purpose.

UNDERWRITING

The 2021B Bonds are being purchased pursuant to a Contract of Purchase, dated the date hereof (the “**Purchase Contract**”), by and between the District and Morgan Stanley & Co. LLC (the “**Underwriter**”), at a purchase price of \$47,959,706.83 (representing the par amount of the 2021B Bonds, less an Underwriter’s discount of \$80,293.17). The Purchase Contract provides that the Underwriter will purchase all of the 2021B Bonds if any are purchased.

The Underwriter has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, the Underwriter may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, the Underwriter may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2021B Bonds.

The Underwriter may offer and sell the 2021B Bonds to certain dealers (including dealers depositing the 2021B Bonds into investment trusts) and others at prices lower than the public offering prices stated on the inside front cover page hereof. The initial public offering prices may be changed from time to time by the Underwriter.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriter and its affiliates may have certain creditor and/or other rights against the District and its affiliates in connection with such activities.

In the various course of their various business activities, the Underwriter and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or

relate to assets, securities and/or instruments of District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District.

The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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APPENDIX A

EASTERN MUNICIPAL WATER DISTRICT

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THE DISTRICT

Organization, Purpose and Powers

Eastern Municipal Water District (the “**District**”) was organized under the Municipal Water District Law, Division 20 of the Water Code of the State of California, as amended (the “**Law**”), on October 16, 1950 for the primary purpose of importing Colorado River water to its service area in order to augment local water supplies. The District’s service area is primarily located in the westerly third of Riverside County. Prior to the District’s formation, the local water supply largely consisted of groundwater wells. Presently, the District imports approximately 51% of its water supply (including approximately 75% of its potable water supply) from The Metropolitan Water District of Southern California (“**MWD**”) and derives approximately 49% of its water supply (including approximately 25% of its potable water supply) from local sources, including groundwater, desalinated water and recycled water. In general, the District supplies approximately 50% of the water consumed within the District’s service area each year; the remainder is provided by private groundwater wells and other agencies.

In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater that has been treated to a level that is acceptable for non-domestic purposes).

The District’s water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District’s service area, as well as wholesale customers (e.g., municipalities and local water districts) located within its service area.

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

The Law also authorizes the District to exercise the power of eminent domain; to levy and collect taxes; to fix, revise and collect rates or other charges for the delivery of water, use of facilities or property or provisions for service; and to fix in each fiscal year of the District ending June 30 (each, a “**Fiscal Year**”) a water standby or availability charge and a sewage and wastewater service standby or availability charge on land within the boundaries of the District to which water and sewage and wastewater services, respectively, are made available by the District. The District may also issue bonds, borrow money and incur indebtedness. For a discussion of current and potential limitations on the District’s ability to maintain or increase taxes, fees and other charges, including such fees and other charges as may be limited by the terms of Proposition 218, see the caption “**HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources.**”

As authorized under the Law, the District has established 61 separate special improvement districts within its service area for the purpose of providing certain water and wastewater improvements for each such special improvement district and charging the costs of such improvements to each such special improvement district through *ad valorem* taxes levied and collected on property located within the boundaries of each such special improvement district. Such *ad valorem* taxes levied and collected with respect to special improvement districts *do not* constitute revenues of the District’s Water and Sewer System, and general obligation bonds that are issued by the District on behalf of each special improvement district constitute obligations of such special improvement district, not obligations of the District. However, the District provides Water and Sewer Service to retail customers located within these special improvement districts and the charges for such service *do* constitute revenues of the District’s Water and Sewer System.

The District does not presently levy any taxes other than *ad valorem* taxes in respect of special improvement districts for repayment of general obligation bond indebtedness. However, as provided under California law, the District does receive a share of the county-wide 1% tax levied and collected by Riverside

County, where the District is located. The proceeds of such share constitute Water and Sewer Revenues and are available to pay Maintenance and Operation Costs of the Water and Sewer System. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources.”

The District is a member agency of MWD and is currently entitled to have one District representative on MWD’s Board of Directors (the “**MWD Board**”). The District annexed into MWD on July 20, 1951, primarily to ensure a reliable water supply during periods of drought and to settle then-outstanding claims for water seepage into the San Jacinto Tunnel. The District was named “Eastern” as it was (and remains) the most easterly service area within MWD.

Board of Directors and Management

Board of Directors. The District is governed by a five-member, publicly elected, Board of Directors (the “**Board**”). Directors are elected by geographic divisions for staggered four year terms. The Board regularly meets on the first and third Wednesday of each month and has five standing committees: Administrative, Executive, Planning, Deferred Compensation Administrative Oversight and Operations/Engineering. These committees review District matters and recommend action to be taken by the full Board.

Philip E. Paule – Board President. A Board member since 2007, Philip E. Paule was re-elected to another four-year term in 2019. He is a graduate of California State University, Fullerton and has worked at various levels of government for the past two decades. Mr. Paule previously served as Board President from 2013 to 2014 and currently serves on the Board’s Administrative and Executive committees as well as the Ad Hoc Committee for the Lake Hemet Municipal Water District. He currently serves on the Board of the Hemet/San Jacinto Watermaster. He also serves as a liaison to the Pechanga and Soboba tribal committees and as the District’s representative to the Western Riverside Council of Governments. Mr. Paule is also on the Executive Committee of CalDesal. His current Board term expires in January 2023.

Randy A. Record – Board Vice President. A Board member since January 8, 2001, Randy A. Record has previously served a two-year term as Board President. Mr. Record has been active in the San Jacinto farming community for more than three decades. A 1976 graduate of California State Polytechnic University, San Luis Obispo, Mr. Record holds a Bachelor of Science degree in agricultural management, continuing his education in irrigation management. Beginning in January 2003, he has represented the District on the MWD Board and is its past Chair as well as a member of its Executive Committee. He is also a member of MWD’s Water Planning and Stewardship Committee, Engineering and Operations Committee, Finance and Insurance Committee, Legal and Claims Committee, Communications and Legislation Committee, Organization Personnel and Technology Committee, Audit and Ethics Committee, Special Committee on Bay-Delta, Agriculture and Industry Relations Committee, Integrated Resources Planning Committee and Real Property and Asset Management Committee. He serves on EMWD’s Executive and Planning committees. Mr. Record is a past President of the Association of California Water Agencies. His current Board term expires in January 2025.

Stephen J. Corona – Director. Stephen J. Corona was first elected to the Board in 2018 and serves on the Planning Committee, the Western Riverside Water and Wastewater Financing Authority and the Joint Committee for both the Elsinore Valley Municipal Water District and Rancho California Water District. He is currently President of Corona Ranch, a diversified farming operation in the City of Temecula, growing grapefruit, avocados, onions, sod and hay. The Corona family also operates the Big Horse Feed Store. In 2001, Mr. Corona was elected to the Board of the Rancho California Water District, a position he held for 16 years, serving as President on three occasions. Mr. Corona has also served on other boards and committees, including the Riverside County Farm Bureau, the Riverside County General Plan Advisory Committee, Citrus, and the Elsinore-Murrieta-Anza Resource Conservation District. Mr. Corona also previously worked for Wells Fargo Bank. His current Board term will expire in January 2023.

Jeff Armstrong – Director. Mr. Armstrong was first elected to the Board in 2020 and serves on the Operations/Engineering Committee and the Joint Committee with Elsinore Valley Municipal Water District. Jeff Armstrong is a retired Water Resources Manager with more than 32 years of experience in the water industry. He has held positions including General Manager, Chief Financial Officer, Treasurer and Controller. Mr. Armstrong has a Bachelor’s degree in business administration from California State University, Long Beach and a Master’s degree in business administration from the University of Redlands. His current Board term expires in January 2025.

David J. Slawson – Director. A Board member since January 1995, Mr. Slawson has previously served twice as Board President. Both a licensed Professional Land Surveyor and licensed California attorney, he is a former member of the California Department of Consumer Affairs Board of Registration for Professional Engineers and Land Surveyors. Mr. Slawson is president of Winchester Associates, a civil engineering and land surveying firm. A longtime resident of Moreno Valley, Mr. Slawson is also a former Moreno Valley city planning commissioner. Mr. Slawson serves on the Board’s Administrative and Operations/Engineering Committees. He also serves as the liaison with Western Municipal Water District, is the chair of the Santa Ana Watershed Project Authority and serves as an alternate representative to the Western Region Council of Governments. His current Board term expires in January 2023.

Management.

Joe Mouawad – General Manager. Joe Mouawad, General Manger, began his career with the District in August 2006. Mr. Mouawad has 25 years of professional engineering experience in both the public and private sectors. He served as Senior Director of Engineering with the District for 10 years before he was promoted to Assistant General Manager, Planning, Engineering, and Construction, in December 2016. He has been responsible for all engineering services performed by the District, including the execution of its \$460 million five-year water, wastewater and recycled water capital improvements program. Mr. Mouawad is a registered professional engineer in the State of California, with a Bachelor of Science degree in Civil Engineering from California State Polytechnic University, Pomona and a Masters of Science degree in Civil Engineering from University of California, Los Angeles. Mr. Mouawad was appointed as the District’s General Manager effective May 3, 2021.

Nick Kanetis – Deputy General Manager. Nick Kanetis, Deputy General Manager, joined the District in March 2014. His oversight responsibility includes operations as well as planning, engineering and construction. Previously, Mr. Kanetis was the Director of Engineering of Orange County Sanitation District (“OCSD”), where he was responsible for the planning, design and construction of OCSD’s approximately \$2 billion capital improvement program. Prior to his service at OCSD, Mr. Kanetis filled executive management positions in private engineering consulting with a focus on the design, planning and construction management of municipal water and wastewater infrastructure projects. Mr. Kanetis has more than 30 years of experience in the public and private sectors managing operations and the delivery of water and wastewater services. Mr. Kanetis is a registered professional engineer in the State of California and a licensed general building contractor. Mr. Kanetis received his Bachelor of Science degree in civil engineering degree with honors from The City University in London, England.

Laura M. Nomura, CPA – Deputy General Manager and Treasurer. Laura M. Nomura, CPA, Deputy General Manager and Treasurer, joined the District in 2018. Her oversight responsibility includes all accounting functions, budget and rate development, debt and investments and strategic financial planning, as well as information systems, customer service, human resources, risk management, meter services, purchasing and contract management. Previously, Ms. Nomura was the Assistant General Manager-Finance and Chief Financial Officer for the City of Riverside Public Utilities for approximately six years. Prior to her service at the City of Riverside, Ms. Nomura held a variety of senior financial management positions in the public and private sectors. Ms. Nomura has more than 30 years of experience in financial management, accounting and auditing. Ms. Nomura received a Bachelor of Arts degree in Accounting from California State University,

Fullerton, and is a Certified Public Accountant. She will be receiving her master's in organizational leadership from the University of Redlands in May 2021.

Jeff Wall – Assistant General Manager, Operations and Maintenance. Jeff Wall, Assistant General Manager, Operations and Maintenance, began his career with the District in 1988. Mr. Wall has more than 30 years of experience in engineering and management and is responsible for water system operations, water reclamation, and maintenance functions of the District. His executive management experience includes five years as the Assistant General Manager/Chief Engineer for Lake Hemet Municipal Water District and seven years on the District's executive team. Mr. Wall received a Bachelor of Science degree in Electrical Engineering Technology from LeTourneau University and a Masters of Public Administration degree from California State University, San Bernardino. He is a registered professional engineer in the State of California.

John Adams – Chief Financial Officer. John Adams, Chief Financial Officer, joined the District in 2020. He manages the District's financial programs, including financial planning, budget, treasury, debt management, rates and charges and accounting. Prior to joining the District, Mr. Adams was the Chief Financial Officer for the State Bar of California. Prior to joining the State Bar of California, he served as the Finance Director and Treasurer for the City of Thousand Oaks, a full-service city that also operates its own water and wastewater divisions, and as an Accounting Manager for the City of West Hollywood. Mr. Adams received a Bachelor's degree in Business Administration from California State University, Northridge.

Thomas Hays – Senior Financial Manager, Debt Administration. Thomas Hays, Senior Financial Manager and Deputy Treasurer, joined the District in April 2019. His responsibilities include managing the District's debt portfolio and its active land-secured financing program. Previously, Mr. Hays was the Deputy City Treasurer for the City of Palm Springs, where he managed the City's financial management program including the investment and debt portfolios. He also previously worked for the City of Riverside overseeing its Treasury Division and spent several years working in private sector finance at JPMorgan Chase. Mr. Hays received a Bachelor of Arts degree with honors in Business Administration from California Baptist University and a Master of Business Administration in Finance from the University of La Verne.

Employee Relations

As of July 1, 2020, the District had approximately 615 employees, of which 25 were in the Executive branch, 160 were in the Administrative Services branch, 268 were in the Operations and Maintenance branch and 162 were in the Engineering, Planning and Construction branch. The District's single bargaining unit, which includes 438 employees, is represented by the International Brotherhood of Electrical Workers Local 1436 (the "Union"). The District's Memorandum of Understanding (the "MOU") with the Union was approved and came into effect in March 2020 and expires on December 31, 2023. The MOU includes three tiers of retiree medical benefits. See the caption "HISTORICAL FINANCIAL OPERATIONS—Pension Plan." Labor and management maintain a stable, cooperative relationship, regularly working together to resolve problems of mutual interest. The District has never experienced a strike, slowdown or work stoppage.

Insurance Programs

Self-Insurance General Liability. Since June 30, 1986, the District has maintained a self-insurance program in connection with all of its general liability risks, including non-vehicular exposure loss due to premises, operations, personal injury and product liability.

Under this program, the District is responsible for all general liability claims and for developing and maintaining a self-insurance reserve fund of \$1,000,000. This insurance expense is proportionately allocated among the operating funds of the District in an amount adequate to maintain this level of reserve. The District requires all contractors, sub-contractors and vendors to maintain a minimum of \$1,000,000 general liability insurance for operations pertaining to District business, together with additional insured endorsements.

The Board established its self-insurance program for public liability with the assistance of an insurance consultant. An actuarial reserve review is conducted for this program periodically. The most recent review in February 2018 concluded that such program was adequate for its purposes.

Excess General Liability Insurance Coverage. Effective June 2016, the Board approved excess general liability, public officials/management liability, and auto liability insurance coverage, with a \$30,000,000 coverage limit. This excess coverage is combined with the District's self-insured retention level and the auto primary coverage of \$1,000,000, subject to nominal deductibles.

Property Appraisal and Seismic Analysis. In 2018, a District consultant conducted a seismic risk assessment of District facilities other than underground pipelines. See the caption "—Seismic Considerations." The seismic risk assessment included replacement costs for structures and equipment at District facilities in the event of a loss and summarized values by location and by buildings. Construction data included year built, facility size and insurable values.

Property Insurance Coverage. The District maintains blanket Special Form insurance coverage for its buildings and equipment, with estimated blanket policy limits of \$799,000,000, excluding earthquake. Flood insurance is also provided on a blanket basis with a limit of \$1,000,000. The District's insurance program is consistent, in the District's judgment, with the District's covenant as to insurance contained in the Master Resolution, which covenant provides in part that the District is not required to procure or maintain such insurance unless such insurance is commercially available at a reasonable cost. Contractors and/or the District are required to provide Course of Construction insurance coverage during the period of construction.

Cyber Insurance Coverage. The District maintains insurance coverage for cyber risks with policy limits of \$10,000,000.

Seismic Considerations

In 2018, a District consultant conducted a seismic risk assessment of District facilities other than underground pipelines. The objective of the study was to provide the District with a preliminary characterization of the seismic vulnerability and expected earthquake loss levels for typical major structures and equipment at these facilities. The study included replacement costs for structures and equipment at District facilities in the event of a loss and summarized values by location and by buildings. Construction data included year built, facility size and insurable values.

The study indicated that, although the District is bounded by two active fault zones, the San Jacinto fault zone to the northeast and the Elsinore fault zone to the southwest, most of the District's facilities are at generally low risk of damage from seismic events due to the recent nature of their design, structural choices made during construction (such as stout reinforced concrete construction) and bracing and anchoring features. The impact of lesser magnitude events is expected by the District to be temporary, localized and reparable. District facilities are designed to withstand earthquakes with minimal damage. The District's facilities and main offices are located on relatively level terrain, with firm alluvium composition, minimizing the potential for earthquake losses. The District has taken steps to reduce the impacts of fault rupture on major pipelines and maintains an inventory of repair items and large diameter pipe for such contingencies. The fresh water storage tanks are built on cut slopes and largely consist of large-diameter steel tanks of modest height with low height-to-diameter ratios. Most of the large tanks have an articulated large diameter inlet/outlet piping connection with flexible expansion couplings and are equipped with seismic control valves which will preserve the storage capacity during a large seismic event. Earthquake loads are taken into consideration in the design of project structures such as pumping plants and interceptor facilities. To date, no District facilities have suffered any significant earthquake damage.

The District has an Emergency Response Plan which is updated annually to ensure compliance with federal, State of California, and local regulations. In October 1995, the District agreed to participate in the

Riverside County Emergency Operational Area, which is intended to organize the efforts of local agencies responding to a disaster and is part of the California Standardized Emergency Management System (“SEMS”) developed by the California Office of Emergency Services and the National Incident Management System (“NIMS”) developed by the Department of Homeland Security. Internally, the Emergency Response Plan calls for specific levels of response from District personnel who are to follow detailed steps for field facility inspection and assessment of damages. This information is then conveyed to the District’s Emergency Operations Center for development of response plans. The District conducts training exercises or drills annually in accordance with SEMS and NIMS guidelines.

The District has prepared a Hazard Mitigation Plan, which in part gives an “Earthquake Hazard Profile.” The profile includes a risk summary of probability and frequency, consequence and severity, vulnerability, and a hazard risk ranking score. In June 2017, the District completed a revision of the Hazard Mitigation Plan and has submitted the revised plan to the State of California and the Federal Emergency Management Agency for approval.

Debt Structure of the District

Parity Obligations. Pursuant to the Master Resolution, the District has previously issued and may in the future elect to issue revenue bonds which are secured by a pledge of and lien on Net Water and Sewer Revenues and constitute “Parity Obligations” under the Master Resolution. Currently, there are no Parity Obligations outstanding. Any Parity Obligations which are issued in the future would be payable from Net Water and Sewer Revenues on a *senior* basis to the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2021B (the “**2021B Bonds**”).

State Contracts. The District has entered into several contracts (each, a “**State Contract**”) to fund certain costs related to design and construction of District infrastructure in accordance with the terms of each State Contract. Each State Contract was entered into with the State of California Department of Water Resources (“**DWR**”) or the State Water Resources Control Board (the “**SWRCB**”). Under each State Contract, the District drew upon available funds in increments as costs were incurred to finance projects. Repayment of the amounts borrowed is on a semi-annual basis and usually begins approximately one year following completion of the related project.

The District’s obligations to make State Contract repayments are payable from Net Revenues on parity with the 2021B Bonds. The following table sets forth the State Contracts related to completed projects which the District is currently repaying:

TABLE 1
EASTERN MUNICIPAL WATER DISTRICT
Outstanding State Contract Obligations Relating to Completed Projects

	<i>Loan Description</i>	<i>Project</i>	<i>Term</i>	<i>Interest Rate (%)</i>	<i>Total Debt Amount (Original)</i>	<i>Remaining Debt Balance (Outstanding)⁽¹⁾</i>	<i>Repayment End Date</i>
1.	Safe Drinking Water State Revolving Fund Loan	Hemet Water Filtration Plant	20 years	0.00%	\$ 42,098,388	\$ 15,318,028	7/1/2028
2.	State Revolving Fund No. 08-845-550 (Moreno Valley RWRf - SCATT)	Moreno Valley RWRf – SCATT	20 years	1.00	38,302,852	23,885,806	7/5/2032
3.	State Revolving Fund No. 09-809-550-1 (Moreno Valley RWRf - APAD)	Moreno Valley RWRf – APAD	20 years	0.42	43,908,096	28,957,740	3/16/2033
4.	State Revolving Fund No. C-06-7831-110 ⁽²⁾	Recycled Water Pond Expansion and Optimization	30 years	1.00	11,246,300	6,800,136	6/30/2047
5.	Water Recycling Project No. C-06-8047-110 ⁽³⁾	Temecula Valley Regional Wastewater Recovery Facility Expansion	30 years	1.80	<u>95,264,880</u>	<u>46,559,791</u>	9/30/2048
	Total				<u>\$ 230,820,516</u>	<u>\$ 121,521,501</u>	

⁽¹⁾ As of July 1, 2020, except for the loan described in Row 5, which reflects the expected outstanding amount when all draws are made upon this loan. See footnote (3) below.

⁽²⁾ \$3,448,130 of the amount of this State Contract constitutes a grant, contingent upon District repayment of the remaining principal amount plus interest.

⁽³⁾ \$15,000,000 of the amount of this State Contract constitutes a grant, contingent upon completion of the financed project. The District does not expect to draw on the full approved amount of \$95,264,880, as a portion of the project was funded from proceeds of the 2017D Bonds. See the caption “—Subordinate Obligations.”

Source: Eastern Municipal Water District.

The District has also entered into an additional State Contract (the “**Alessandro Ponds Contract**”) in the approximate amount of \$795,400 to finance the Alessandro Ponds Recycled Water Storage System, which is designed to increase the District’s recycled water pond storage capacity so that recycled water need not be discharged in winter months when demand is low and can be sold in summer months when demand is high. See footnote (1) to Table 8 under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Production” and the caption “THE CAPITAL IMPROVEMENT PLAN.” Payments under the Alessandro Ponds Contract have been forgiven in full by the SWRCB. Projected debt service figures shown in Tables 3 and 19 do not reflect the payment under the Alessandro Ponds Contract.

Subordinate Obligations. In addition to the Interest Rate Swap Agreement described below under the subcaption “—Interest Rate Swap Agreement” and the State Contracts described above under the subcaption “—Subordinate State Contracts,” District obligations that are payable from Net Revenues on parity with the 2021B Bonds (the “**Subordinate Obligations**”) are set forth in the following table.

TABLE 2
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Subordinate Obligations

<i>Name of Issue</i>	<i>Original Amount Issued</i>	<i>Principal Outstanding as of July 1, 2020</i>	<i>Final Scheduled Maturity Date</i>
Water and Wastewater Revenue Bonds, Series 2015B (the “ 2015B Bonds ”) ⁽¹⁾	\$ 74,430,000	\$ 74,430,000	July 1, 2046
Refunding Water and Wastewater Revenue Bonds, Series 2016A (the “ 2016A Bonds ”)	209,230,000	183,835,000	July 1, 2045
Water and Wastewater Revenue Bonds, Series 2016B (the “ 2016B Bonds ”) ⁽²⁾	124,925,000	119,365,000	July 1, 2035
Refunding Water and Wastewater Revenue Bonds, Series 2017C (the “ 2017C Bonds ”)	17,515,000	17,515,000	July 1, 2023
Water and Wastewater Revenue Bonds, Series 2017D (the “ 2017D Bonds ”) ⁽³⁾	102,500,000	102,500,000	July 1, 2047
Refunding Water and Wastewater Revenue Bonds, Series 2018A (the “ 2018A Bonds ”) ⁽⁴⁾	94,455,000	94,455,000	July 1, 2046
Refunding Water and Wastewater Revenue Bonds, Series 2018B (the “ 2018B Bonds ”) ⁽⁵⁾	53,485,000	52,785,000	July 1, 2030
Refunding Water and Wastewater Revenue Bonds, Series 2018C (the “ 2018C Bonds ”) ⁽⁶⁾	47,780,000	47,780,000	July 1, 2046
Refunding Water and Wastewater Revenue Bonds, Series 2020A (the “ 2020A Bonds ”) ⁽⁷⁾	<u>122,145,000</u>	<u>122,145,000</u>	July 1, 2039
Total	<u>\$846,465,000</u>	<u>\$814,810,000</u>	

⁽¹⁾ The 2015B Bonds were issued by the Eastern Municipal Water District Financing Authority (the “**EMWDF**”), a joint exercise of powers authority of which the District is a member. The District’s obligations under an installment purchase agreement with the EMWDF (the “**2015B IPA**”), which secure the 2015B Bonds, are payable from Net Revenues on parity with the 2021B Bonds.

⁽²⁾ The 2016B Bonds were issued by the EMWDF. The District’s obligations under an installment purchase agreement with the EMWDF (the “**2016B IPA**”), which secure the 2016B Bonds, are payable from Net Revenues on parity with the 2021B Bonds.

⁽³⁾ The 2017D Bonds were issued by the EMWDF. The District’s obligations under an installment purchase agreement with the EMWDF (the “**2017D IPA**”), which secure the 2017D Bonds, are payable from Net Revenues on parity with the 2021B Bonds.

⁽⁴⁾ The District has entered into a liquidity facility related to these obligations with Sumitomo Mitsui Banking Corporation expiring on April 12, 2022. Amounts payable thereunder constitute Subordinate Obligations payable from Net Revenues on parity with the 2021B Bonds.

⁽⁵⁾ These obligations are expected to be refunded in full from proceeds of the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2021A (the “**2021A Bonds**”). The District maintains an Interest Rate Swap Agreement with the Swap Provider related to these obligations which the District expects to terminate in connection with the refunding of the 2018B Bonds. See the forepart of this Official Statement under the caption “**INTRODUCTION**” and the subcaption “—Interest Rate Swap Agreement” below.

⁽⁶⁾ These obligations are expected to be refunded in full from proceeds of the 2021B Bonds. See the forepart of this Official Statement under the caption “**THE REFUNDING PLAN.**”

⁽⁷⁾ The 2020A Bonds were issued by the EMWDF. The District’s obligations under an installment purchase agreement with the EMWDF (the “**2020A IPA**”), which secure the 2020A Bonds, are payable from Net Revenues on parity with the 2021A Bonds.

Source: Eastern Municipal Water District.

Other Subordinate Obligations. Certain amounts payable to banks that provide credit or liquidity facilities in connection with certain District obligations constitute Subordinate Obligations which are payable from Net Revenues on parity with the 2021A Bonds. No such amounts are currently outstanding.

Interest Rate Swap Agreement. The District has outstanding one interest rate swap agreement (the “**Interest Rate Swap Agreement**”) with Wells Fargo Bank, National Association (the “**Swap Provider**”). Information relating to the Interest Rate Swap Agreement is summarized below. In connection with the issuance of the 2021A Bonds, the proceeds of which will be applied to refund the 2018B Bonds, the District will terminate the Interest Rate Swap Agreement in full on the date of issuance of the 2021A Bonds. See the forepart of this Official Statement under the caption “INTRODUCTION.”

<i>Related Bond Issue</i>	<i>Notional Amount as of July 1, 2020</i>	<i>Swap Provider</i>	<i>District Pays</i>	<i>District Receives</i>	<i>Scheduled Maturity/Termination Date</i>
2018B Bonds	\$53,140,000	Wells Fargo Bank, National Association	3.10%	66% of 1-month LIBOR	7/1/2030

Source: Eastern Municipal Water District.

In order to terminate the Interest Rate Swap Agreement in full, the District will make a termination payment of \$7,608,200 to the Swap Provider on June 10, 2021. This payment will be made from proceeds of the 2021A Bonds.

From time to time, the District may enter into additional interest rate swap agreements with security and payment provisions as determined by the District and subject to any conditions contained in the 2021B Bonds.

Summary of Debt Service. The following table summarizes projected debt service with respect to: (i) the District’s outstanding Parity Obligations; and (ii) the 2021B Bonds and other Subordinate Obligations.

TABLE 3
EASTERN MUNICIPAL WATER DISTRICT
Estimated Debt Service Schedule

<i>Period Ending June 30</i>	<i>Total Parity Obligation Debt Service⁽¹⁾</i>	<i>Subordinate Obligations</i>					<i>Subordinate State Contracts Debt Service⁽⁴⁾</i>	<i>Total Debt Service⁽⁵⁾</i>
		<i>2021B Bonds Principal</i>	<i>2021B Bonds Interest⁽²⁾</i>	<i>Total 2021B Bonds Debt Service⁽²⁾</i>	<i>Subordinate Obligation Debt Service⁽³⁾</i>			
2021	\$ 4,868,750	\$ -	\$ -	\$ -	\$ 42,048,682	\$ 8,562,187	\$ 55,479,619	
2022	-	-	1,639,941	1,639,941	47,905,897	8,562,187	58,108,025	
2023	-	-	1,681,400	1,681,400	48,879,988	8,562,187	59,123,575	
2024	-	-	1,684,484	1,684,484	48,672,963	8,562,187	58,919,634	
2025	-	-	1,678,316	1,678,316	50,052,683	8,562,187	60,293,186	
2026	-	-	1,681,400	1,681,400	50,059,683	8,562,187	60,303,270	
2027	-	-	1,681,400	1,681,400	50,041,623	8,562,187	60,285,210	
2028	-	-	1,684,484	1,684,484	50,017,148	8,562,187	60,263,819	
2029	-	-	1,678,316	1,678,316	51,104,194	7,509,728	60,292,238	
2030	-	-	1,681,400	1,681,400	52,165,775	6,457,268	60,304,443	
2031	-	-	1,681,400	1,681,400	52,167,729	6,457,268	60,306,397	
2032	-	-	1,684,484	1,684,484	52,191,450	6,457,268	60,333,202	
2033	-	-	1,678,316	1,678,316	52,232,200	6,457,268	60,367,784	
2034	-	-	1,681,400	1,681,400	54,260,200	2,041,169	57,982,769	
2035	-	-	1,681,400	1,681,400	56,756,675	2,041,169	60,479,244	
2036	-	-	1,684,484	1,684,484	56,807,825	2,041,169	60,533,478	
2037	-	-	1,678,316	1,678,316	48,332,750	2,041,169	52,052,235	
2038	-	-	1,681,400	1,681,400	48,922,325	2,041,169	52,644,894	
2039	-	-	1,681,400	1,681,400	49,266,013	2,041,169	52,988,582	
2040	-	5,285,000	1,514,373	6,799,373	45,382,940	2,041,169	54,223,482	
2041	-	5,475,000	1,318,114	6,793,114	45,385,317	2,041,169	54,219,600	
2042	-	5,675,000	1,122,500	6,797,500	45,389,629	2,041,169	54,228,298	
2043	-	5,880,000	917,290	6,797,290	45,386,917	2,041,169	54,225,376	
2044	-	6,095,000	705,844	6,800,844	39,737,006	2,041,169	48,579,019	
2045	-	6,315,000	483,287	6,798,287	39,735,871	2,041,169	48,575,327	
2046	-	6,540,000	255,939	6,795,939	39,735,790	2,041,169	48,572,898	
2047	-	6,775,000	19,490	6,794,490	39,743,021	2,041,169	48,578,680	
2048	-	-	-	-	46,734,875	2,041,169	48,776,044	
2049	-	-	-	-	-	1,737,257	1,737,257	
2050	-	-	-	-	-	1,737,257	1,737,257	
TOTAL⁽⁴⁾	\$ 4,868,750	\$48,040,000	\$36,560,578	\$84,600,578	\$1,349,117,165	\$135,928,351	\$1,574,514,844	

⁽¹⁾ This obligation was paid off in full on July 1, 2020. No Parity Obligations remain outstanding. See the caption “—Parity Obligations.”

⁽²⁾ Interest on the 2021B Bonds is calculated at an assumed interest rate of 3.50% per annum.

⁽³⁾ Excludes debt service on 2021B Bonds and State Contracts. Includes debt service on 2021A Bonds and reflects refunding of 2018B Bonds and 2018C Bonds, as well as termination of the Interest Rate Swap Agreement. See the subcaption “—Interest Rate Swap Agreement.” Interest on the 2018A Bonds is calculated at an assumed interest rate of 3.50% per annum. Reflects scheduled debt service on the 2015B IPA, the 2016A Bonds, the 2016B IPA, the 2017C Bonds, the 2017D IPA and the 2020A IPA as set forth in Table 2 under the caption “—Subordinate Obligations.”

⁽⁴⁾ Reflects debt service on State Contracts described in Table 1 under the caption “—Subordinate State Contracts.”

⁽⁵⁾ Totals may not add due to rounding.

Source: PFM Financial Advisors LLC.

Improvement District Bonds. The District has established 61 special improvement districts, of which 32 are water special improvement districts, 23 are sewer special improvement districts and six are combined water and sewer special improvement districts. Since 1952, the District has issued (on behalf of certain of these special improvement districts) 115 series of voter-authorized general obligation bonds, of which \$30,285,000 aggregate principal amount remained outstanding as of July 1, 2020. There remain \$547,650,000 aggregate principal amount of authorized but unissued general obligation bonds of the various special improvement districts within the District as of July 1, 2020. Such bonds are payable from *ad valorem* taxes levied by the District within the improvement districts for which such bonds were issued. Each series of such bonds constitutes an obligation of the respective special improvement district, not an obligation of the District, and the *ad valorem* taxes levied by the District on behalf of each such special improvement district are available only for the repayment of the bonds issued for such special improvement district. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources” for a discussion of certain limitations on the District’s ability to levy *ad valorem* taxes.

District Debt Policy

The District has adopted a Comprehensive Debt Management Policy (the “**Debt Policy**”) in accordance with California Government Code § 8855. The Debt Policy, which was most recently updated on April 7, 2021, sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, the types and amounts of permissible debt and the methods of sale that may be used. Adherence to the Debt Policy helps to ensure that the District’s debt is issued and managed prudently in order to maintain a sound fiscal position and optimal credit ratings.

The District reviews the Debt Policy several times per year (whenever there is a material change in risk exposures or conditions). The Debt Policy was initially adopted by the Board of Directors and incorporated into Title 3, Article 8 of the District’s Administrative Code on January 18, 2017.

District Investment Policy

Section 4 of the District’s Administrative Code includes the District’s investment policy (the “**Investment Policy**”), which is intended to promote its stated objectives of: (i) preserving principal by mitigating both credit risk and market risk; (ii) maintaining liquidity; and (iii) providing an acceptable rate of return after first considering safety of principal and liquidity.

Under the Investment Policy, which was most recently updated on July 18, 2018, investments will be generally consistent with the Prudent Investor Rule and are governed by certain provisions of the California Government Code. Within the limitations imposed by the California Government Code, the District further restricts the types of investments and their maturities. Generally, permitted investments include: United States Treasury, agency and instrumentality obligations; obligations of the State of California and its political subdivisions and local agencies; banker’s acceptances; commercial paper of domestic corporations; certificates of deposits; repurchase agreements; reverse repurchase agreements; the California Local Agency Investment Fund established by the State Treasurer; time deposits; medium-term notes of corporations; mutual funds; mortgage and consumer receivable pass-through securities; collateralized mortgage obligations; and mortgage and consumer receivable-backed certificates. Under the Investment Policy, prohibited investments include inverse floaters, indexed notes and interest-only strips that are derived from a pool of mortgages.

In addition, the Investment Policy provides certain guidelines for diversification of investments, liquidity goals, qualification of banks and securities dealers and collateralization requirements for certain investments.

District Reserve Policy

The District's Administrative Code also includes a reserve policy (the "**Reserve Policy**") which governs the District's general fund reserve, construction reserves and general damage reserve. General fund reserves are intended to provide working capital, allow for unanticipated changes to budgeted expenses and provide adequate cash flow during disasters or other emergencies. The general fund reserve target is 25% of total operating fund moneys. Construction reserves are intended to support the District's capital improvement program and are segregated into restricted (developer-funded) and unrestricted funds. The general damage reserve is intended to provide moneys for unanticipated claims against the District. The general damage reserve target is the average amount of claims against the District for the prior three Fiscal Years less the current Fiscal Year's accrued liability.

The Reserve Policy was adopted by the Board on January 22, 2003 and is subject to change at any time at the discretion of the Board. The Indenture pursuant to which the 2021B Bonds are being issued does not require the District to maintain a debt service reserve fund for the 2021B Bonds. As of June 30, 2020, the District had approximately \$409.5 million in available cash reserves, representing approximately 685 days of Maintenance and Operation Costs in the form of cash on hand. The District's total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately \$585 million and is invested in various securities with an average yield of approximately 0.61% as of February 28, 2021. See Note 2 in Appendix B for further information with respect to District reserves.

Cybersecurity

The District relies on computers and technology to conduct its operations. The District and its departments face the risk of cyber threats from time to time including, but not limited to, hacking, viruses, malware and other forms of technology attacks. Recently, there have been significant cybersecurity incidents affecting municipal agencies, including a freeze affecting computer systems of the City of Atlanta, an attack on the City of Baltimore's 911 system, an attack on the Colorado Department of Transportation's computers and an attack that resulted in the temporary closure of the Port of Los Angeles' largest terminal.

The District employs a multi-level cyber protection scheme that includes firewalls, anti-virus software, anti-spam/malware software, multi-factor authentication, intrusion protection and domain name system filtering software. The District also contracts with third party vendors to monitor and augment internal monitoring of the District's computer systems. To date, the District has not experienced a successful attack on its computer operating systems. However, there can be no assurance that the District's security and operational control measures will be successful in guarding against all cyber threats and attacks. The results of any attack on the District's computer system could negatively impact the District's operations, and the costs related to such attacks could be substantial, although the District expects that any negative impacts would be temporary. The District maintains cyber insurance coverage, as discussed under the caption "**Insurance Programs—Cyber Insurance Coverage.**"

DISTRICT SERVICE AREA

General

The District's service area lies within the westerly third of Riverside County, encompassing approximately 355,200 acres (approximately 555 square miles). The first map below is a detailed map of the District's service area, while the second map below indicates the District's location within the southern California region. When the District was annexed to MWD by the District's voters in 1951, the District's service area consisted of 86 square miles. Growth has resulted from 88 annexations ranging in area from 1 to 72,000 acres. In addition, there have been 8 detachments of service areas. The District is divided into separate regional service areas for water service and for sewer service.

Riverside County’s population was approximately 2.5 million as of calendar year 2020. Of this total population, the District serves approximately 34%. The District has estimated that the population of the District’s service area as of Fiscal Year 2020 was approximately 850,439.

The District provides wastewater service in certain areas in which retail water service is provided by other agencies. Historic population and water and wastewater connection information for the District is set forth below:

<i>Fiscal Year</i>	<i>Population</i>	<i>Water Connections</i> ⁽¹⁾	<i>Wastewater Connections</i> ⁽²⁾
1990	190,548	63,516	91,176
2000	450,000	83,283	139,248
2005	596,000	112,845	190,321
2010	699,000	133,810	226,846
2011	705,000	135,233	228,701
2012	768,000	136,478	230,356
2013	776,986	138,141	232,431
2014	785,000	140,028	235,194
2015	794,790	141,752	237,911
2016	803,973	143,517	241,210
2017	816,411	145,939	245,013
2018	827,343	148,994	248,759
2019	839,226	150,807 ⁽³⁾	252,683
2020	850,839	153,503 ⁽³⁾	256,610

⁽¹⁾ Active water accounts as of June 30 of each Fiscal Year.

⁽²⁾ By equivalent dwelling unit. Reflects an average of active connections over the course of the listed Fiscal Years. Does not include recycled water connections. See the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—District Recycled Water Supply” for Fiscal Year 2020 recycled water connections.

⁽³⁾ Does not match figure shown under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Sales and Delivery” because such figures reflect an average of active connections over the course of each Fiscal Year.

Source: Eastern Municipal Water District.

Projected additional water and wastewater connections are set forth in Footnotes (13) and (12), respectively, to Table 19 under the caption “PROJECTED OPERATING RESULTS.”

Proposed Annexations

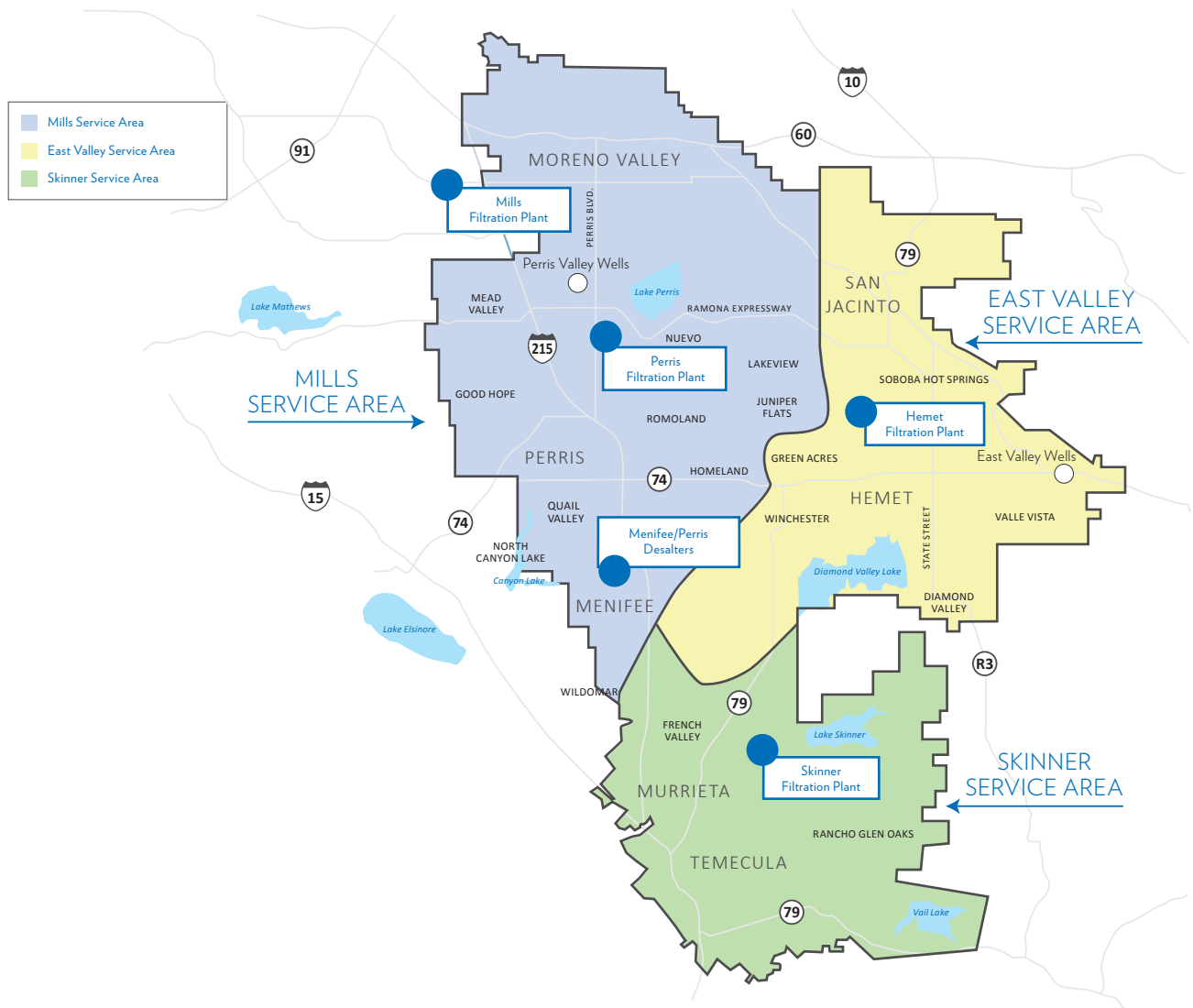
In 2018, Fallbrook Public Utility District (“**FPUD**”) and Rainbow Municipal Water District (“**RMWD**”), water agencies with service areas that are located south and southwest of the District’s service area, approached the District to discuss the potential of annexing into the District’s service area. FPUD and RMWD are located in San Diego County and are currently within the service area of San Diego County Water Authority (“**SDCWA**”), which like the District is an MWD member agency. On March 25, 2020, FPUD and RMWD submitted applications to detach from SDCWA’s service area and annex into the District’s service area. The applications will be considered by the San Diego County Local Agency Formation Commission (“**LAFCO**”) and could necessitate a municipal service review, which is a detailed analysis of the benefits and drawbacks of the proposed annexations. If the annexations are approved by LAFCO, which (as discussed further below) is not expected to occur for several years, they would be submitted to voters within the FPUD and RMWD service areas for approval.

If the annexations are effected, FPUD and RMWD would receive MWD water through the District rather than through SDCWA. The agencies would purchase such water at wholesale rates determined by the District and would be required to comply with the District’s Administrative Code. The District does not expect

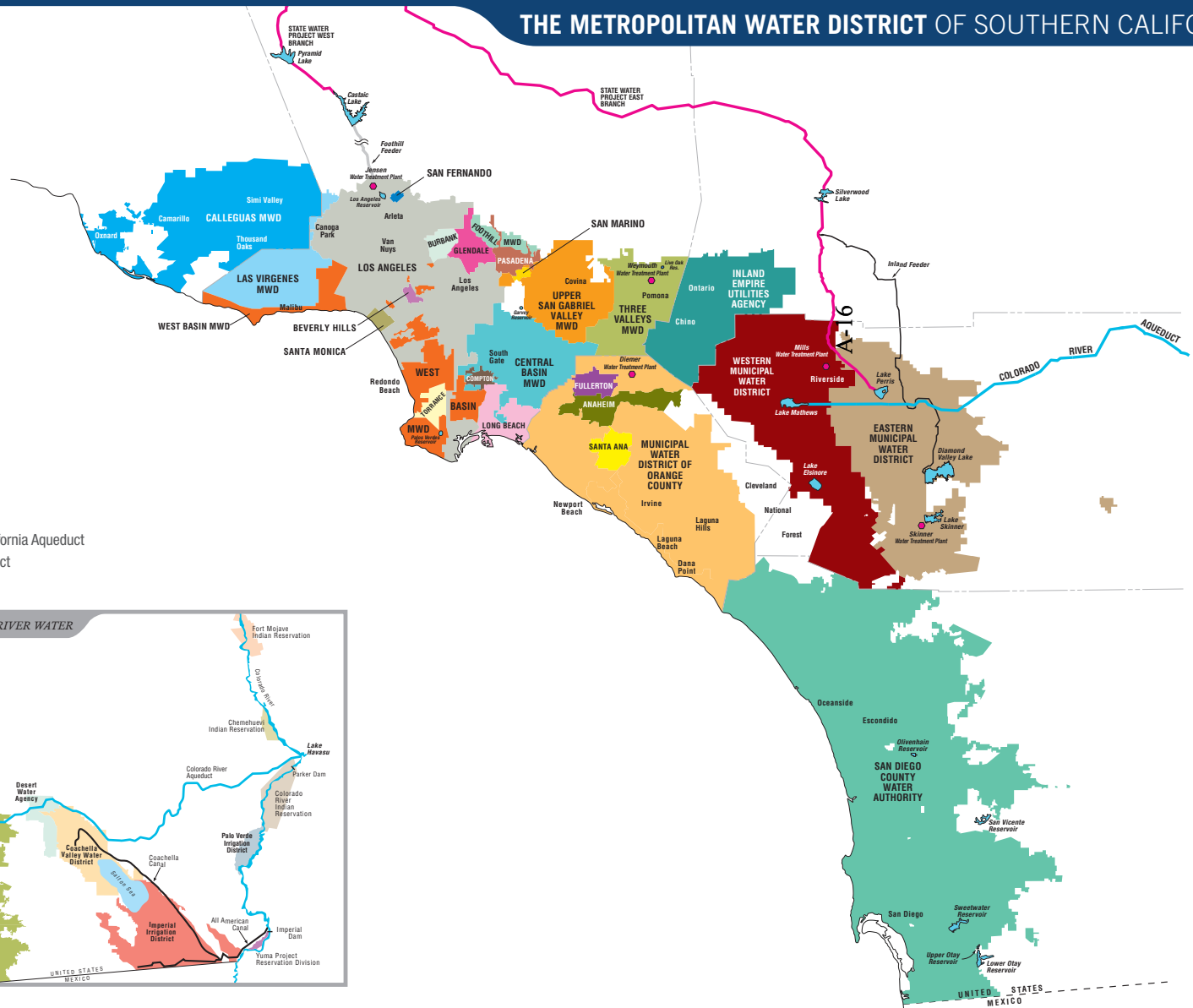
significant changes to its operating expenses or revenues should the annexations be effected because the infrastructure to serve MWD water to FPUD and RMWD through the District's service area is largely in place.

Although the District is unable to provide any assurance as to the ultimate outcome of the FPUD and RMWD annexation applications, the District expects that LAFCO's consideration of the applications will take several years. The District also expects that SDCWA will oppose the applications. For the foregoing reasons, the projected operating results that are set forth herein do not include any adjustments to operating expenses or revenues to reflect the proposed annexations.

SERVICE AREA MAP AND INCORPORATED CITIES



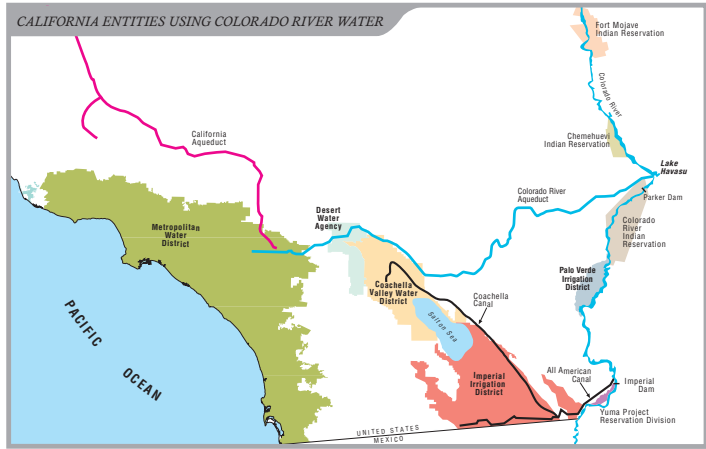
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA



METROPOLITAN'S MEMBER AGENCIES

LEGEND

- Department of Water Resources' California Aqueduct
- Metropolitan's Colorado River Aqueduct
- Water Treatment Plants



WATER RESOURCES, FACILITIES AND USAGE

General

The District receives its potable water supply from two sources: (i) local groundwater; and (ii) water imported by the District. The sole source of the District's imported water is MWD. The District also supplies recycled water, or highly treated sewage effluent, for non-domestic purposes.

Approximately 49% of the District's total water supply (including domestic and non-domestic) comes from local sources, including approximately 6% from potable groundwater, approximately 6% from groundwater that must undergo desalination treatment to be used as potable water and approximately 37% from recycled water. Groundwater sources are heavily dependent upon rainfall and other sources of recharge. The remaining 51% of the District's water supply (including approximately 75% of its potable water supply) comes from purchases from MWD, which in turn obtains its water supply from two primary sources: (i) the Colorado River via the Colorado River Aqueduct; and (ii) the State Water Project via the Edmund G. Brown California Aqueduct. In Fiscal Year 2020, MWD supplied the District with approximately 68,904 acre feet of water. (Quantities of water are expressed in terms of acre feet. An acre foot is the amount of water which will cover one acre to a depth of one foot and is equivalent to 325,900 gallons.)

The District provides water service to retail customers located within the cities of Menifee, Moreno Valley, Murrieta, Temecula and Wildomar and the unincorporated communities of Good Hope, Homeland, Lakeview, Nuevo, Mead Valley, Quail Valley, Romoland, Valle Vista and Winchester. The District also supplies water on a wholesale basis to the cities of Hemet, San Jacinto and Perris, Lake Hemet Municipal Water District ("LHMWD"), Nuevo Mutual Water Company, Western Municipal Water District and DWR (collectively, the "Wholesale Customers").

Because the largest single component of the District's rates is the cost of water purchased from MWD, the District has, historically, adjusted its water rates to its customers as the cost of water purchased from MWD has changed. See the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues."

The Metropolitan Water District of Southern California

Composition of MWD. MWD was created in 1928 by vote of the electorates of a number of Southern California cities to provide a supplemental supply of water for domestic and municipal uses at wholesale to its member agencies. The MWD service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. There are 26 member agencies of MWD, consisting of 14 cities, 11 municipal water districts (including the District) and one county water authority. MWD is governed by a Board of Directors, currently numbering 37 members. Each member agency has at least one representative on the MWD Board. Representation and voting rights are based upon each member agency's assessed valuation. The District has one representative on the MWD Board. The total population of the MWD service area is approximately 19 million.

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

MWD Revenues. MWD revenues are primarily derived from water sales. Water rates are established by majority vote of the MWD Board and are not subject to regulation by the California Public Utilities Commission or by any other local, State of California or federal agency. Rates must be uniform for any class of service, and no water may be provided free of charge. Under the Metropolitan Water District Act, California Statutes 1969, Chapter 209, as amended (the "MWD Act"), MWD is required, so far as practicable, to fix such

rate or rates for water as will result in revenue which, together with revenue from any water standby or availability charge or assessment, will pay the operating expenses of MWD, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by MWD and provide for the payment of the interest and principal of the bonded debt of MWD, subject to the applicable provisions of the MWD Act authorizing the issuance and retirement of such bonds. The same water rate is charged for water provided from the Colorado River and the State Water Project.

MWD is also empowered to impose an annual water standby or availability service charge, to be allocated among MWD’s member agencies as determined by the MWD Board based on, among other factors: historical water deliveries by MWD; contracted or projected water service demands by member agencies; service connection capacity; acreage; property parcels; population; and assessed valuation. The charge may be collected from the member agencies or from individual parcels or may be converted into a benefit assessment. MWD imposes a water standby charge ranging from \$5.00 to \$14.20 for each acre or parcel less than an acre within MWD’s service area, subject to specific exempt categories. Standby charges are assessments under the terms of Proposition 218. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitation Taxes and Other Revenue Services.” A majority of the MWD Board can approve a higher rate. Different rates may be established for parcels situated within different member agencies.

The following table sets forth MWD’s rates for treated and untreated water from January 1, 2017 to January 1, 2022.

TABLE 4
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
Summary of Water Rates in Dollars per Acre Foot

<i>Rates Effective Beginning</i>	<i>Full Service Domestic</i>	
	<i>Treated</i>	<i>Untreated</i>
January 1, 2017 Tier 1	\$ 979	\$666
January 1, 2017 Tier 2	1,073	760
January 1, 2018 Tier 1	1,015	695
January 1, 2018 Tier 2	1,101	781
January 1, 2019 Tier 1	1,050	731
January 1, 2019 Tier 2	1,136	817
January 1, 2020 Tier 1	1,078	755
January 1, 2020 Tier 2	1,165	842
January 1, 2021 Tier 1	1,104	777
January 1, 2021 Tier 2	1,146	819
January 1, 2022 Tier 1	1,143	799
January 1, 2022 Tier 2	1,185	841

Source: Eastern Municipal Water District.

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

District Water Facilities

The District's distribution system for potable water includes 88 water booster or pumping plants, 204 million gallons of surface storage capacity and approximately 2,480 miles of pipeline ranging from 4 to 60 inches in diameter.

Wells. Locally, the District currently maintains 14 active domestic production wells. The wells, which supplied approximately 11% of the District's domestic water in Fiscal Year 2020, are listed by location, current status and Fiscal Year 2020 production in the following table. The District also pumps groundwater from wells in the Perris South and Lakeview sub-basins. Information relating to such wells is not set forth below because groundwater produced from such wells is brackish and must be desalinated prior to use. See the caption "—Groundwater Supplies—General."

TABLE 5
EASTERN MUNICIPAL WATER DISTRICT
Active Domestic Production Wells

<i>Location</i>	<i>Status</i>	<i>Fiscal Year 2020 Production (in acre feet)</i>	<i>Current Pumping Capacity⁽¹⁾</i>	
			<i>gallons/minute</i>	<i>acre feet/day</i>
<u>San Jacinto Basin – Cienega Area of Canyon Sub-Basin</u>				
No. 17 Cienega Well	Active	270	1,400	6.2
No. 26 Cienega Well	Active	104	1,950	8.6
No. 34 Cienega Well	Active	304	1,600	7.1
<u>San Jacinto Basin – Intake Area of Upper Pressure Sub-Basin⁽²⁾</u>				
No. 25 Fruitvale Well	Active	2,251	1,400	6.2
No. 33 Mountain Avenue Well	Active	260	900	4.0
No. 36 New Washington Street	Active	979	1,100	4.9
<u>San Jacinto Basin – Upper Pressure Sub- Basin</u>				
No. 29 Quandt Well	Active	1,131	1,550	6.8
No. 38 Mtn/Meridian Chnl Well	Active	148	2,100	9.3
No. 90 Evans/Old Mtn Well	Active	1,716	1,700	7.5
No. 91 Ramona/Espl Well	Active	816	1,600	7.1
No. 92 Ramona/Hemet Well	Active	962	1,700	7.5
<u>San Jacinto Basin – Hemet South Sub- Basin</u>				
No. 35 Palm & Menlo Well	Active	197	650	2.9
<u>San Jacinto Basin – Perris North Sub- Basin</u>				
No. 55 Perris II Well	Active	409	1,200	5.3
No. 56 Perry Street Well ⁽³⁾	Inactive	0	900	4.0
No. 57 Follico Well	Active	1,274	800	3.5
No. 59 Indian Avenue Well ⁽⁴⁾	Inactive	0	1,150	5.1
Total Production ⁽⁵⁾		10,821	21,700	95.9

⁽¹⁾ Tested capacity can vary with changes in water table.

⁽²⁾ Excludes Well Nos. 14, 27 and 80 because such wells were removed from production in April 2015, April 2016 and August 2016, respectively.

⁽³⁾ Well No. 56 was voluntarily shut down in February 2019 after the District detected perfluorooctanoic acid and perfluorooctanesulfaonic acid (collectively, “PFAS”) at levels that exceed State notification levels. See the captions “—Groundwater Supplies—General” and “—Quality of District Water—PFAS.”

⁽⁴⁾ Through monitoring required by the federal Environmental Protection Agency’s (“EPA”) Unregulated Contaminant Monitoring Rule, the District detected PFAS at levels that exceed new EPA health advisory levels in Well No. 59. See the captions “—Groundwater Supplies—General” and “—Quality of District Water—PFAS.” The District voluntarily shut down Well No. 59 in May 2016 and has entered into three agreements with the United States Air Force (the designated responsible party) to mitigate the physical and economic impacts of these contaminants. Under the first of these agreements, the Air Force reimburses the District for the purchase of additional imported water to replace the water that Well No. 59 would have produced. Under the second of these agreements, the Air Force reimburses the District for expenses related to constructing a wellhead treatment facility to remove PFAS to levels that are within the limits of the EPA’s health advisory. Under the third of these agreements, the Air Force reimburses the District for the operating costs associated with the wellhead treatment facility, including carbon media replacement and disposal. The wellhead treatment facility has been completed and Well No. 59 was placed back in service in January 2021.

⁽⁵⁾ Reflects actual Fiscal Year 2020 groundwater extractions. Excludes adjustments for in-lieu water purchased from MWD instead of being extracted from groundwater wells. Also excludes adjustments for groundwater extracted from District wells but delivered to other agencies.

Source: Eastern Municipal Water District.

The District’s wells are considered to be deep-well production wells ranging in depth from 100 feet to 1,696 feet. Pumping levels for production range from 100 feet to 516 feet. The active production wells have a combined production capability of 21,700 gallons per minute, which equates to approximately 95.9 acre feet per day. The District has conducted studies to determine the safe yield of the groundwater sub-basins serving these

wells. The development and production of future wells will depend on the safe yield of the groundwater sub-basins. See the caption “—Groundwater Supplies—Soboba Settlement Agreement” for a discussion of certain groundwater recharge activities of the District.

Pipelines. The District’s potable water distribution system consists of approximately 2,480 miles of pipeline ranging in diameter from 4 inches to 60 inches.

Pressure Zones. Because elevations within the District vary from approximately 1,120 to approximately 3,160 feet, the District’s water distribution system includes 73 pressure zones which provide water service at acceptable minimum and maximum pressures. The District attempts to maintain zone pressures between 40 and 90 pounds per square inch.

Each pressure zone requires pumping plants or other sources of supply for providing water at the desired pressure. Most pressure zones also have storage facilities for providing water during peak demand and under emergency and fire flow conditions.

Storage Facilities. The District’s water system includes 79 active water storage facilities located throughout the District. These facilities provide approximately 204 million gallons of storage. The active reservoirs are ground level circular steel tanks; in addition, there are six small hydro-pneumatic booster tanks and three small well blending tanks, ranging in size from 0.08 million gallons to 8.4 million gallons. The ground level reservoirs are situated at elevations high enough to provide water by gravity flow. The reservoirs are used to store water for fluctuating hourly demands (regulating storage), fire flow demands and emergency purposes. Given these considerations, it is the District’s intent to manage water storage efficiently by use of a telemetry system. The District’s storage facilities maintain an approximately 2.3 day supply of water.

Pumping Plants. The District is required to pump almost its entire supply of water because of the elevations of MWD’s filtration plants relative to the District’s service area. Two pressure zones in Murrieta Hot Springs can be supplied by gravity from MWD’s Robert A. Skinner Treatment Plant (the “**Skinner Plant**”).

The District currently has three major pumping plants which are essential in the supply of MWD water. The most significant, the Mills Pumping Plant, delivers approximately 38% of the total supply on a maximum demand day. The combined capacity of the District’s three pumping plants is 86 million gallons per day (“**mgd**”); however, system conditions limit the pumping plants’ capacity to 80 mgd under maximum operating conditions (one mgd equals approximately 3 acre feet per day). In addition, there are currently 82 potable and 6 raw water pumping stations in operation.

Menifee/Perris Desalters. The District operates two brackish groundwater desalination plants located adjacent to each other. These plants use reverse osmosis to treat a combined plant capacity of 7 mgd. Plant production is blended with excess well production to provide a total potable supply of 9 mgd to the water system. The desalters are fed by 15 brackish (i.e., non-domestic) water wells pumping from the South Perris groundwater sub-basin. As described under the caption “—Groundwater Supplies—Brackish Groundwater Desalination,” the District is currently constructing an additional well to expand its desalination system.

Perris Water Filtration Plant (“PWFP”). PWFP is a 24 mgd membrane filtration plant. Supply to PWFP comes from the EM-4A/B and the EM-22 MWD raw water connections. EM-4A/B supplies a mix of State Water Project water and Colorado River water and has a capacity of 80 cubic feet per second. EM-22 primarily supplies State Water Project water and has a capacity of 40 cubic feet per second.

Hemet Water Filtration Plant (“HWFP”). HWFP is a 12 mgd membrane filtration plant. Supply to HWFP comes from the EM-14 MWD connection. EM-14 supplies State Water Project water and has a capacity of 47 cubic feet per second.

Connections to MWD Facilities

Colorado River water is transported from Lake Havasu through the Colorado River Aqueduct to the terminus at Lake Matthews in Riverside County. State Water Project water is delivered to MWD through the 444-mile California Aqueduct to the Lake Perris terminus in Riverside County. Short of the Lake Perris terminus, MWD takes water from the Santa Ana Valley Feeder into its Henry J. Mills Treatment Plant (the “**MWD Mills Plant**”).

The District has access to MWD imported water through three active potable water connections and four active raw water connections with MWD facilities. The connections are capable of flows of approximately 100 mgd from the MWD Mills Plant, 24 mgd of Colorado River water from the District’s Perris Water Filtration Plant, 97 mgd from the Skinner Plant and 30 mgd of untreated State Water Project water in the Hemet/San Jacinto area. The 30 mgd connection is the supply for the District’s 12 mgd HWFP.

Three major connections connect the District to supplies from the MWD Mills Plant and the Skinner Plant. The connection at the MWD Mills Plant is the District’s primary source of filtered water. Due to the elevation of the MWD Mills Plant, water must be pumped into the District’s system. The MWD Mills Plant can deliver up to 100 mgd to the District under maximum operating conditions. District facilities are only capable of pumping approximately 80 mgd into the transmission-distribution system via the District’s Mills Pumping Plant. In addition, the District obtains a blend of filtered State Water Project water and Colorado River water from the Skinner Plant through a connection at Auld Road and Leon Road. The Skinner Plant can deliver up to 97 mgd under maximum operating conditions. However, existing District facilities can deliver only 87 mgd into the transmission-distribution system. Of the 87 mgd that the District can deliver, only 42 mgd can be transmitted to the northern three-fourths of the District’s service area. See the caption “—The Metropolitan Water District of Southern California.”

MWD Supplies

As discussed above, approximately 51% of District’s water supply (including approximately 75% of its potable water supply) is imported from MWD. In Fiscal Year 2020, MWD supplied the District with approximately 68,904 acre feet of water. MWD member agencies, which use MWD water to supplement their own local water supplies, can be expected to increase their purchases of MWD water if their local water supplies are reduced. MWD reports that it had approximately 3.95 million acre feet of water in storage as of January 1, 2021, compared to approximately 3.89 million acre feet, 2.98 million acre feet, 3.08 million acre feet and 1.96 million acre feet of water in storage as of January 1, 2020, January 1, 2019, January 1, 2018 and January 1, 2017, respectively.

MWD faces various challenges in the continued supply of imported water to the District. A description of these challenges as well as a variety of other operating information with respect to MWD is included in certain disclosure documents prepared by MWD. MWD periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. MWD has also entered into certain continuing disclosure agreements pursuant to which MWD is contractually obligated for the benefit of owners of certain of its outstanding obligations to file certain annual reports, notices of certain enumerated events as defined under Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (“**Rule 15c2-12**”) and annual audited financial statements (together with MWD’s official statements and other disclosure documents, the “**MWD Information**”) with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/> (“**EMMA**”). The MWD Information is not incorporated herein by reference thereto, and the District makes no representation as to the accuracy or completeness of such information. **MWD HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE 2021B BONDS TO PROVIDE MWD INFORMATION TO THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE 2021B BONDS.**

MWD 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 MWD. MWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH MWD INFORMATION, FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE 2021B BONDS UNDER RULE 15c2-12.

Water Supply Reliability

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

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

On April 21, 2021, the Governor directed State agencies to take immediate action to bolster drought resilience and prepare for impacts on communities, businesses and ecosystems should dry conditions which have existed since 2019 continue. In addition, on May 10, 2021, the Governor declared a drought state of emergency in 41 counties in northern and central California (not including Riverside County). There can be no assurance that subsequent declarations will not extend to the District’s service area should dry conditions persist in 2021 or future years.

District Response to Water Shortages. The District has made substantial investments in local projects and believes that it is able to balance its local and imported water supplies to meet wholesale and retail demands, even during prolonged drought conditions. During the most recent Statewide drought (as described under the caption “—State Orders,” the District demonstrated that it had more than sufficient supplies to meet its demands, and could have met projected demands even if California endured three more years of drought.

In accordance with California Water Code § 10632 requirements, the District is responsible for conserving the available water supply, protecting the integrity of water supply facilities and implementing a contingency plan in times of drought, supply reductions, failure of water distribution systems or emergencies. The District adopted its WSCP to regulate the delivery and consumption of water use during water shortages.

Under the District’s WSCP, the District responds to a drought in stages in concert with regional water planning groups and neighboring water service providers. Implementation of the WSCP begins with the General Manager’s declaration of a potable water shortage emergency applicable to all customers, followed by public notice of such declaration. The first WSCP stage (Supply Watch) calls for voluntary 10% reductions in water use. The second WSCP stage (Supply Alert) calls for voluntary reductions in water use of up to 25% and reducing yard irrigation by one day per week, repairing leaks or water line breaks promptly, ending refills of artificial lakes and not using potable water to wash vehicles. The third WSCP stage includes Stage 3A (Mandatory Waste Reduction), which eliminates water use variances to fill swimming pools, establishes new landscaping requirements and requires water leaks to be fixed within 48 hours, Stage 3B, which decreases Tier 3 water budgets by up to 50% and Stage 3C, which decreases Tier 3 water budgets up to 100%. The fourth WSCP Stage (Mandatory Outdoor Reduction) limits yard irrigation to one day per week (two days per week in summer months) and decreases Tier 2 water budgets by up to 10% (Stage 4A), up to 50% (Stage 4B) and then up to 100% (Stage 4C). The fifth WSCP stage (Mandatory Indoor Reduction) decreases Tier 1 water budgets by 10%, 30% and then 50%.

In addition, for all stages, penalties are levied for violations of the Water Conservation provisions of the District’s Administrative Code. The District’s tiered rate structure is discussed under the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues—Water Rates and Charges.”

During Fiscal Years 2016 and 2017, in response to the most recent drought and State-mandated water use reductions, the District implemented various stages of the WSCP, ranging from Stage 3C to 4C. At Stages 3C and above, water use in excess of the allotted budget amounts is charged at the highest cost per hundred cubic feet of water.

The District is currently implementing the Stage 2 of its WSCP. As further described above, under Stage 2 (Supply Alert), the District encourages a voluntary 25% reduction in potable water use through ongoing enforcement of water use efficiency requirements.

The District estimates that the implementation of Stage 2 of the WSCP will not have a significant impact on most customers, but will continue to send a strong message to eliminate water waste. While implementation of the WSCP in future years may result in lower water sales revenues, it is also likely to result in lower operating costs, in particular water purchase costs and energy costs for water deliveries. Based on a rate study that was prepared in 2017, the District revised its rate structure in order to more closely align the allocation of water costs with residential and non-residential water rates. See the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues—Water Rates and Charges.”

Although the District believes that its groundwater and imported water supplies are stable or improving given increased attention to groundwater management (as discussed under the caption “—Groundwater Supplies”) and storage of surface water, State regulations to date have not been revised to reflect such facts. The District does not believe that the implementation of Stage 2 of the WSCP will have a material adverse effect on its ability to generate sufficient Net Revenues to pay the 2021B Bonds when due. See the forepart of this Official Statement under the caption “SECURITY FOR THE 2021B BONDS—Pledge of Net Revenues.”

If a water shortage should arise, legal issues exist as to whether different California Water Code provisions should be invoked to require reasonable regulations for the allocation of water in time of shortage. Any curtailment that is accompanied by an increase in MWD water charges to its member agencies could necessitate an increase in the District’s water rates to District customers. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources.”

State Long-Term Water Conservation Requirements. To improve water conservation and drought planning, the California Legislature adopted and the Governor signed Senate Bill 606 (Hertzberg) and Assembly Bill 1668 (Friedman) into law in 2018. This legislation lays out a new long-term water conservation framework for California and mandates that DWR and the SWRCB develop new standards for the following:

- Indoor residential water use
- Outdoor residential water use
- Commercial, industrial and institutional water use for landscape irrigation
- Water loss

The indoor water use standard has been defined as 55 gallons per person per day (“GPCD”) until January 2025; the standard will decrease over time to 50 GPCD in January 2030. Standards for outdoor residential water use, commercial, industrial and institutional water use for landscape irrigation are still being developed. Urban water suppliers will be required to stay within annual water budgets, based on these standards, for their service areas.

The District is already implementing residential water budgets based on the 55 GPCD standard, consistent with the efficiency standards set by the State as well as water for the irrigated area of homes based on a percentage of the evapotranspiration rate. The District also has a tiered rate structure that further promotes water use efficiency. The District's tiered rate structure is discussed under the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues—Water Rates and Charges." Due to the approach that the District has taken to promote water use efficiency, and because the District is currently implementing provisions of its WSCP that prohibit wasteful water use, the District does not believe the implementation of the indoor water use standards that are described above will have a significant effect on the District's ability to generate sufficient Net Revenues to pay the 2021B Bonds when due.

Groundwater Supplies

General. In Fiscal Year 2020, the District produced approximately 6% of its total domestic water supply from 12 wells located on the east side of the San Jacinto groundwater basin (the "**San Jacinto Basin**") and approximately 2% of its total domestic water supply from 2 wells located on the west side of the San Jacinto Basin. To maintain its production capacity, the District is also in the process of constructing three additional wells (Well Nos. 37, 38 and 205) to replace three wells (Well Nos. 14, 28 and 80, respectively) that were taken out of production in 2015, 2011 and 2016, respectively. Well No. 38 was completed in early 2020 and came online in May 2020. The District is currently finalizing the design of the equipping facilities for Well Nos. 37 and 205. In an effort to expand capacity on the east side of the San Jacinto Basin, the District is also constructing three additional wells (Well Nos. 201, 202 and 203) as part of the San Jacinto Valley Enhanced Recharge and Recovery Program, which is discussed in detail under the subcaption "—Other Programs" below. The east side of the San Jacinto Basin also provides groundwater for the cities of Hemet and San Jacinto, LHMWD and private well owners; use by private well owners is primarily for agricultural irrigation. The District also produces approximately 6% of its total domestic supply from wells in the Perris South and Lakeview sub-basins that contain brackish water which must be desalinated prior to use.

In May 2016, Well No. 59 (Indian Avenue Well) was taken out of service due to exceedances of the EPA's Amended Provisional Health Advisory for PFAS. Well No. 59 is one of the four wells located on the west side of the San Jacinto Basin. The District has been able to purchase additional imported water to replace the 1.5 mgd that had previously been drawn from Well No. 59. PFAS is used in the manufacturing of aqueous film forming foam, a substance that is used to fight fires. The source of PFAS was determined to be a fire fighting training site located on March Air Reserve Base in Moreno Valley. The United States Air Force, the designated responsible party, has entered into agreements with the District to fund water supply replacement and well treatment, as discussed in the following paragraphs.

On February 15, 2017, the District entered into an agreement entitled "Environmental Services Cooperative Agreement for Response Activities for Off-Base Wells with Perfluorinated Compounds" between the Air Force and the District. Through this agreement, the Air Force Civil Engineer Center will reimburse the District for the purchase of additional imported water to replace the water that Well No. 59 would have produced since May 20, 2016, when the well was shut down so that a wellhead treatment system could be constructed. The wellhead treatment system for Well No. 59 is now complete and the well was put back into service on January 19, 2021.

On July 24, 2017, the District entered into a second agreement with the Air Force under which the Air Force will reimburse the District for expenses related to constructing wellhead treatment facilities at Well No. 59 to remove PFAS to levels that are within the limits of the EPA's health advisory.

On March 5, 2021, the District entered into a third agreement with the Air Force under which the Air Force will reimburse the District for the operating costs associated with the wellhead treatment facilities, including carbon media replacement and disposal.

In February 2019, Well No. 56 (Perry Street Well) was taken out of service and inactivated with the SWRCB's Division of Drinking Water (the "**DDW**") due to exceedances of the State Notification Level for PFAS. See the caption "**—Quality of District Water—PFAS.**" The District is currently evaluating treatment options for Well No. 56, including preliminary design, treatment location and environmental analysis.

See the caption "**—Quality of District Water—PFAS**" for a discussion of recent State of California regulations related to PFAS.

The Watermaster. Groundwater uses by public agencies (the District, LHMWD and the cities of Hemet and San Jacinto) and certain private well owners on the east side of the San Jacinto Basin have been adjudicated pursuant to a stipulated judgment (the "**Judgment**") dated April 18, 2013 in the matter of *Eastern Municipal Water District v. City of Hemet, et al.*, Superior Court of California, County of Riverside Case No. RIC 1207274. The Judgment contains a physical solution to meet the requirements of water users with rights in the groundwater sub-basins. Pursuant to the Judgment, a court-created watermaster (the "**Watermaster**") has been appointed to administer adjudicated water rights of the parties that are subject to the Judgment and manage groundwater recharge and storage within the groundwater sub-basins. The Watermaster is governed by a 5-member board, to which the District appoints one representative. Each board member has equal voting rights.

When the Judgment was entered, the adjudicated portion of the San Jacinto Basin was estimated to be in a state of overdraft in the approximate amount of 10,000 acre feet per year; since that time, public agencies have reduced their pumping in accordance with the Judgment. Under the Judgment, the initial safe yield of the adjudicated portion of the San Jacinto Basin was estimated to be approximately 45,000 acre feet per year. A groundwater model of the San Jacinto Basin that was prepared in conjunction with the Watermaster in 2016 confirmed that the long-term safe yield of the basin is approximately 45,000 acre feet per year.

To achieve a reduction of groundwater production to this level, an Adjusted Base Production Right (the "**ABPR**") was established for each of the participating public agencies that are subject to the Judgment. The ABPR quantity was reduced by 10% in the first year following the Judgment, with subsequent reductions of 7% per year required for the following five years in order to reduce groundwater production to a sustainable level. Since May 2019, the District's ABPR has been established at 7,303 acre feet per year. Further reductions in the District's ABPR are not anticipated at this time.

In addition to the District's ABPR, the District has access to groundwater that it recharged into the adjudicated portion of the San Jacinto Basin prior to 2012. Such supplies are supplemented by water that has been recharged under the Settlement Act (as described under the caption "**—Soboba Settlement Agreement**"), which on a long-term basis provides up to approximately 2,500 acre feet per year of groundwater to the District (depending on the amount of groundwater pumped by the Soboba Tribe).

The District's groundwater production right will be increased to the extent that land used for agricultural purposes by certain private producers (for which such private producers currently pump groundwater) is converted to developments that receive their water service from the District.

The Watermaster is entitled to levy upon the agencies that are subject to the Judgment: (i) an administrative assessment (\$35 per acre foot for calendar year 2021) on groundwater pumped up to the parties' respective ABPR amounts, which will be used to cover administrative costs of the Watermaster; and (ii) a replenishment assessment for groundwater pumped by the parties in excess of their respective base production amounts, which will be used to purchase water for groundwater recharge. The Watermaster is currently evaluating the costs of purchasing water for groundwater recharge in consultation with the District and other agencies subject to the Judgment. Accordingly, the amount of such replenishment assessment has not yet been determined.

The District's groundwater programs include the following elements:

Groundwater Management Activities. The non-adjudicated portion of the San Jacinto Basin (primarily located on west side of such basin) is managed pursuant to a groundwater management plan that was developed pursuant to Assembly Bill 3030 (the "**AB 3030 Groundwater Management Plan**"). The District adopted the AB 3030 Groundwater Management Plan in 1995 to implement regional strategies for the protection and management of local groundwater resources on the west side of the San Jacinto Basin. Elements of the AB 3030 Groundwater Management Plan include: (i) the establishment of a groundwater basin manager (the District) and an advisory committee that consists of cities, water municipalities and private groundwater producers that overlay the west San Jacinto Basin; (ii) monitoring of groundwater production and quality; (iii) a well abandonment and destruction program; (iv) artificial recharge of imported water, recycled water and water resulting from water harvesting; (v) recovery of degraded groundwater for blending with imported water; and (vi) recovery of brackish groundwater using demineralization treatment technologies.

The District prepares an annual report to document AB 3030 Groundwater Management Plan implementation and activities, including an analysis of the previous year's groundwater monitoring data, a summary of groundwater-related changes from previous years, updates on the activities of the various management zones and goals and recommendations for the following year. All costs associated with the implementation of the AB 3030 Groundwater Management Plan are borne by the District.

The SGMA (as described under the subcaption "—Sustainable Groundwater Management Act" below) requires the preparation and implementation of a Groundwater Sustainability Plan (a "**GSP**") for non-adjudicated critical, high and medium priority basins. The San Jacinto Basin has been designated as a high priority basin and the District is currently developing a GSP for the non-adjudicated portion of the San Jacinto Basin. The District is on track to submit the GSP to DWR before the end of 2021. Until the GSP is approved by DWR, the existing AB 3030 Groundwater Management Plan will remain in effect for the non-adjudicated portion of the San Jacinto Basin. In addition, annual reporting will also continue until development of the GSP is completed and implemented (by the January 31, 2022 deadline). By April 1, 2022, the District will submit the first annual report to DWR documenting activities within the GSP plan area during the 2021 water year (October 1, 2020 through September 30, 2021).

The District is developing additional local groundwater supplies within the cities of Moreno Valley and Perris (in the Perris North sub-basin) by remediating non-point sources of volatile organic compounds, perchlorate and nitrate within the sub-basin. This program is also expected to reduce reliance on imported MWD water and provide a more reliable water supply for the District. In 2019, the District applied for and was awarded grant funding from the SWRCB's Proposition 1 Groundwater Grant Program for the District's Perris North Basin Groundwater Contamination Prevention and Remediation Program (the "**Perris North Program**"). The grant award of \$44.9 million constitutes approximately 50% of the estimated \$90 million project costs for the Perris North Program. The Perris North Program is expected to generate an additional groundwater supply of up to 6,450 acre feet per year while also removing contaminants from the basin that currently threaten existing drinking water wells. This multi-benefit program will not only provide a new water supply source for the District but also protect existing groundwater supplies for current and future consumers. The anticipated completion of construction for the Perris North Program is February 2023.

Brackish Groundwater Desalination. The District has constructed two desalters with a combined annual capacity of 9,600 acre feet per year (or approximately 8 mgd). See the caption "—District Water Facilities—Menifee/Perris Desalters." A third desalter, called the Perris II Desalter, is currently under construction and is anticipated to be completed in August 2021. The addition of the Perris II Desalter will expand the desalination program capacity to 15,000 acre feet per year (or approximately 13.4 mgd). The Perris II Desalter's total cost is expected to be approximately \$50 million. The District applied for and received SWRCB Proposition 1 Groundwater Grant Program funding of \$22.5 million to fund approximately 50% of the total project cost. The District also received a \$1 million grant to provide partial funding for a new well (Well No. 93), which will feed the desalination system. Well No. 93 was placed into service in June 2016. The

District is conducting research and investigating the feasibility of reducing waste brine volume to increase potable water recovery at its desalination plants as well as reduce brine disposal costs. The District also received a separate \$1 million grant from the State of California for partial funding of one additional desalter well (Well No. 94). The United States Army Corps of Engineers (“USACE”) budgeted \$2,500,000, \$3,600,000, \$750,000, and \$4,007,000 in federal fiscal years 2014-15, 2015-16, 2016-17 and 2017-18, respectively, for a total of \$10,857,000 to provide partial funding for three of the four new desalter wells (Well Nos. 94, 95 and 96). Well Nos. 95 (13th/Reservoir Well) and 96 (Santa Rosa Well) were drilled, tested and equipped in 2017 and placed into service in 2018. Well No. 94 (12th/Reservoir Well) was drilled, tested and equipped in 2018 and 2019 and placed into service in 2019.

Soboba Settlement Agreement. In 2008, the President of the United States signed the Soboba Settlement Act (the “**Settlement Act**”) to settle a lawsuit filed by the Soboba Band of Luiseño Indians (the “**Soboba Band**”) against MWD, LHMWD and the District. The lawsuit alleged that the construction of the San Jacinto Tunnel and Lake Hemet by MWD and LHMWD, respectively, had adversely affected the Soboba Band’s water rights. Recharge of imported raw water was identified in the Judgment as the physical solution (as described above under the caption “—Watermaster”). The Settlement Act approved the physical solution and required the District to contract with MWD for an annual supply of at least 7,500 acre feet of imported raw water to be recharged into the San Jacinto Upper Pressure and/or the Canyon Sub-basins of the San Jacinto Basin and to construct facilities to enable such recharge. The Phase I recharge facilities consist of the Integrated Recharge and Recovery Program (“**IRRP**”) ponds that are located within the San Jacinto Upper Pressure Sub-basin and the Grant Avenue Ponds that are located within the Canyon Sub-basin. The District, together with LHMWD, the cities of Hemet and San Jacinto and local groundwater producers, carries out the activities that comprise the physical solution at these recharge facilities. The first year of recharge under the Judgment occurred in 2012. As part of the physical solution, groundwater pumping by the District can be limited in certain years when necessary to safeguard the sustainability of the groundwater basin.

The District’s total share of facilities construction costs and cash settlement payments under the Settlement Act was approximately \$8.9 million, or approximately 33.7% of the \$26.6 million total paid by all parties. This figure does not include the District’s 33.7% share of the annual costs associated with the recharge of at least 7,500 acre feet of water for future years. Such costs are not included in projected Operating Expenses set forth in Table 19 under the caption “**PROJECTED OPERATING RESULTS**” because water purchased for recharge pursuant to the Settlement Act is not sold to District customers and is treated as an asset (water inventory) that is available to the District so long as groundwater levels available to the Soboba Band meet the requirements of the Settlement Act. See Note 10 in Appendix B for a more detailed description of the District’s accounting treatment of the costs of water purchased for recharge pursuant to the Settlement Act.

Recycled Water. Approximately 37% of the District’s water supply consists of recycled water. In Fiscal Year 2020, the District produced approximately 49,952 acre feet of recycled water. Recycled water is utilized year-round. However, in winter months, the excess recycled water can be used to augment natural recharge and increase groundwater basin yield. The District has entered into a cooperative agreement with USACE with respect to the San Jacinto River Ecosystem Restoration Feasibility Study to evaluate and determine the feasibility of restoring the river ecosystem and the use of different water supply sources, including recycled water for ecosystem restoration in conjunction with groundwater recharge. In 2018, the District completed a preliminary design report and strategic plan identifying Purified Water Replenishment (through advanced treatment and groundwater recharge) as a key future strategy for achieving 100% year-round utilization of available recycled water supplies. The District is currently undertaking the regulatory approval process for the Purified Water Replacement project. An environmental impact report (as discussed under the caption “**THE CAPITAL IMPROVEMENT PLAN—Environmental Considerations**”) is in progress, groundwater modeling is complete and a California Code of Regulations Title 22 engineering report is in progress.

Sustainable Groundwater Management Act. On September 16, 2014, the Governor signed Assembly Bill No. 1739 and Senate Bill Nos. 1168 and 1319 (collectively, the Sustainable Groundwater Management Act,

or “SGMA”) into law. The SGMA constitutes a legislative effort to regulate groundwater on a Statewide basis. Under the SGMA, DWR designated groundwater basins in the State as high, medium, low or very low priority for purposes of groundwater management. Local groundwater producers were required to establish or designate an entity (referred to as a groundwater sustainability agency, or “GSA”), subject to DWR’s approval, to manage each high and medium priority groundwater basin. Each GSA is tasked with submitting a GSP for DWR’s approval by January 31, 2022. Alternatively, groundwater producers were required to submit a groundwater management plan under Part 2.75 of the California Water Code or an analysis for DWR’s review demonstrating that a groundwater basin has operated within its sustainable yield for at least 10 years by January 31, 2017, with updates every five years thereafter.

GSAs must consider the interests of all groundwater users in the basin and may require registration of groundwater users, the installation of flow meters to measure groundwater extractions and annual reporting of extractions up to an amount specified in the GSP. In addition, GSAs are authorized to impose spacing requirements on new wells, monitor, regulate and limit or condition groundwater production and establish production allocations among groundwater producers, among other powers. GSAs are authorized to impose fees to fund such activities and to fine or issue cease and desist orders against producers that violate the GSA’s regulations. GSPs must include sustainability goals and a plan to implement such goals within 20 years.

The San Jacinto Basin has been designated as a high priority groundwater basin by DWR under the SGMA. Certain portions of the San Jacinto Basin (primarily on the east side thereof) have been adjudicated pursuant to the Judgment (as discussed under the caption “—The Watermaster”), and as such are specifically exempt from the SGMA based on a legal interpretation provided by the SWRCB. Small areas to the northeast and south of the San Jacinto Basin also fall under separate adjudications (Western-San Bernardino Watermaster and Santa Margarita River Watershed Watermaster, respectively). The District is not pursuing the formation of a GSA for the area managed by the Watermaster.

After consultation with other agencies, the District submitted a notification to DWR seeking to become the GSA for the unadjudicated west side of the San Jacinto Basin. Following a 90-day public review period (which expired on April 24, 2017), DWR recognized the District as the GSA for the unadjudicated west side of the San Jacinto basin. The District does not currently expect its groundwater extraction rights or costs in the west side of the San Jacinto Basin to change significantly as a result of the enactment of the SGMA because the District is already sustainably managing such areas as part of the AB 3030 Groundwater Management Plan that is discussed under the caption “—Groundwater Management Activities,” as required by the SGMA. The AB 3030 Groundwater Management Plan will remain in effect until a GSP is approved by DWR for the unadjudicated west side of the San Jacinto Basin. The District initiated the development of the San Jacinto Basin GSP in February 2019 and is expected to submit the GSP before the January 31, 2022 deadline. The District received grant funding from DWR’s Proposition 68 Sustainable Groundwater Management Grant Program-Round 3 funding, with no additional conditions, in the amount of \$1,166,500, the full requested amount to prepare a GSP and purchase additional groundwater monitoring equipment. The funding match that the District will provide is approximately 25%, or \$390,000, for a total estimated project cost of \$1,556,500. The District believes that the GSP that it is developing in accordance with the SGMA will not have a significant fiscal impact, nor is it expected to have a material impact on the District’s groundwater supply from such areas.

The District intends to request DWR approval of the San Jacinto Basin GSP for such areas by January 31, 2022 in accordance with the SGMA, although there can be no assurance as to the timing or substantive provisions of the final approved plan. All of the District’s groundwater wells are currently metered, as required by the SGMA.

The District does not currently expect the enactment of the SGMA or the appointment of the District as a GSA with respect to the west side of the San Jacinto Basin to have a material adverse effect on the District’s ability to generate sufficient Net Revenues to pay the 2021B Bonds.

Other Programs. The District is in various stages of design and construction for the development of a water bank with a storage capacity of up to 136,000 acre feet in the San Jacinto Basin as well as other groundwater basins in the Santa Ana Watershed. This storage capacity will be shared among four regional water agencies, and the District's share will be 34,000 acre feet, with 19,500 acre feet of such amount held within the San Jacinto Basin. The project, known as the Santa Ana River Conservation and Conjunctive Use Program ("SARCCUP"), calls for importing untreated water from MWD and water purchased from other agencies. Such water would be recharged into the east side of the San Jacinto Basin from properties that are currently owned by the District. See the subcaption "—The Watermaster" above. SARCCUP is the first phase of a larger water banking program known as the San Jacinto Valley Enhanced Recharge and Recovery Program (the "SJV ERRP").

As currently proposed, some of the recharged water will be used for conjunctive use (recharged and pumped in the same calendar year) and some will be banked for future use during drought or water supply emergencies. The District believes that depositing water into the San Jacinto Basin for future use will improve reliability and reduce treatment costs for such water. Under SARCCUP, three wells are being constructed (Wells Nos. 201, 202 and 203). The equipping of such wells is scheduled to be completed in 2022. After this first phase of the SJV ERRP, up to eight additional wells will be constructed, in order to extract additional banked water needed to meet increasing storage needs as the District's service area grows. The estimated annual average capacity of the three SARCCUP wells is approximately 1,400 gallons per minute, or approximately 2,300 acre feet per year, for a combined extraction rate of about 7,000 acre feet per year. Related recharge facilities include: (i) a 39-acre site known as Mountain Avenue West (currently under construction), which includes monitoring wells and water conveyance facilities; (ii) the use of the existing IRRP recharge ponds; and (iii) an additional site to be constructed in the future; together, these projects are expected to have a capacity of up to 90,000 acre feet per year. The cost for the first phase of the SJV ERRP is estimated to be approximately \$45.6 million.

The District was awarded Proposition 84 grant funding by DWR's Integrated Regional Water Management Program for SARCCUP. The District has not yet determined financing sources for later phases of the SJV ERRP. An environmental impact report was completed in February 2019 for SJV ERRP. See the caption "THE CAPITAL IMPROVEMENT PLAN—Environmental Considerations." SARCCUP is expected to be completed by December 2023, in accordance with the grant funding schedule. The District will contribute \$32.6 million toward the program, with the remaining \$13.1 million cost expected to be met through grant funding.

Quality of District Water

General. The District receives treated water from MWD which, to the District's knowledge, meets all current requirements of the federal Safe Drinking Water Act and regulations of the DDW. Water quality, as well as quantity, has varied based on annual weather patterns. For example, prior to 2017, California was in an extended period of drought, resulting in greater quantities of Colorado River water being supplied to the District. The increased level of snowpack and precipitation in 2017 resulted in the availability of a larger allocation of State Water Project water, thereby reducing MWD and District dependence of Colorado River water. A year later, in 2018, the Sierra Nevada snowpack and local precipitation (which represent the sources of State Water Project water) were below average, causing a decrease in the amount of State Water Project water available. In 2019, the State's rainfall was above average, which allowed State Water Project water to be available, while 2020 rainfall totals were again below average and DWR has announced a 5% allocation of State Water Project water requests for the 2021 water year.

The District has 31 sources of water, including local and imported sources. Groundwater in the San Jacinto Basin is safe and of high and reliable quality; the District's domestic wells in such basin meet all federal and State of California regulations. The District's wells in the Hemet and Perris groundwater sub-basins supply a reliable water source and utilize treatment processes, such as blending or reverse osmosis, to produce high quality potable water that meets all federal and State of California standards. In addition to the District's wells,

two surface water treatment plants use the latest ultrafiltration technology to treat raw imported water. See the caption “—District Water Facilities.”

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

PFOA and PFOS are fluorinated organic chemicals which are part of the family of synthetic compounds referred to as PFAS (an abbreviation of the term “per- and polyfluoroalkyl substances”). PFAS are water and lipid resistant substances that are useful for a variety of manufacturing processes and industrial applications. They are often present in water supplies which are impacted by wastewater treatment plant effluent or active or former military installations.

Testing undertaken by the District has shown that PFAS is not present in the District’s water supplies in quantities above the State’s NLs and RLs or the EPA Health Advisory Level. The District continues to abide by orders issued by the DDW. As part of the State’s Investigative Order issued in 2019, the District monitored and reported on specific wells quarterly for a year. Testing of Well Nos. 17, 26, 34 and 36 in the eastern area of the District did not detect any PFAS. Testing in desalter wells (Well Nos. 87, 93 and 95) detected PFAS. However, the water supplied by desalter wells is treated at the District’s desalination facilities and results showed PFAS levels below the State’s NL. The District notes that certain of its water treatment facilities utilize a reverse osmosis process, which removes salts and PFAS. See the caption “—District Water Facilities—Menifee/Perris Desalters.”

The District does not anticipate that implementation of the lowered PFAS RLs by the DDW will have a material adverse effect on the District’s ability to pay the 2021B Bonds. However, the District notes that the EPA is exploring whether to impose a Maximum Contaminant Level (a legal threshold on the amount that is permitted to be present in drinking water) on PFOA and PFOS and that the DDW is exploring whether to regulate PFAS other than PFOA and PFOS and/or blowoffs from wells that are being treated for PFAS contamination, among other measures. The imposition of additional regulations related to PFAS could require changes to and additional costs associated with the District’s groundwater production operations. There can be no assurance as to the timing and ultimate composition of any such additional regulations. Accordingly, the projected operating results which are set forth under the caption “PROJECTED OPERATING RESULTS” do not assume significant increases in water treatment costs to meet State regulations relating to PFAS in the current or next four Fiscal Years.

See the caption “—Groundwater Supplies—General” for a discussion of an amended EPA advisory notice related to PFAS and the State’s lowered NL which caused the District to shut down Well Nos. 59 and 56.

Water Production

The term “water production” describes the quantity of water that the District obtains from all sources to meet its consumers’ needs. These sources include the District’s wells, desalination plants, District purchases from MWD and recycled water. It also includes losses incurred between the source and the ultimate use by the consumer. These losses may result from pipeline breaks, leakage, evaporation from operating reservoirs and metering discrepancies. Water production of the District for the last five Fiscal Years is shown in the following table:

TABLE 6
EASTERN MUNICIPAL WATER DISTRICT
Water Production in Acre Feet

<i>Fiscal Year</i>	<i>Domestic Retail</i>	<i>Wholesale</i>	<i>Agriculture</i>	<i>Recycled Water</i>	<i>Total Production</i>
2016	68,302	2,807	6,861	44,901	122,871
2017	76,700	4,358	6,101	46,346	133,505
2018	81,208	4,311	5,537	47,685	138,741
2019	73,792	4,252	6,000	49,974	134,018
2020	79,446	4,100	1,864 ⁽¹⁾	51,822	137,232

⁽¹⁾ Decrease reflects reduced water requests from LHMWD, which drew upon water stored in Lake Hemet prior to requesting water at wholesale from the District.

Source: Eastern Municipal Water District.

The table below sets forth the estimated annual amount of water per active account consumed for domestic purposes in the District’s service area for the last five Fiscal Years. The water needed to satisfy these domestic consumption levels was furnished by the District.

TABLE 7
EASTERN MUNICIPAL WATER DISTRICT
Domestic Water Use Within District’s Service Area

<i>Fiscal Year</i>	<i>Use (acre feet)⁽¹⁾⁽²⁾</i>	<i>Billed Accounts</i>	<i>Average Acre Feet Per Account</i>
2016	63,673	146,225	0.44
2017	68,813	148,473	0.46
2018	77,020	150,674	0.51
2019	66,803	153,378	0.44
2020	72,733	155,918	0.47

⁽¹⁾ Differences from the “Domestic Retail” water production figures set forth in Table 6 reflect water loss and use of water for internal District purposes.

⁽²⁾ Excludes wholesale sales of domestic water.

Source: Eastern Municipal Water District.

Water deliveries by the District for the last five Fiscal Years are shown in the table below. The District’s water deliveries are equal to the District’s water production less losses experienced in delivering such water to the consumer.

TABLE 8
EASTERN MUNICIPAL WATER DISTRICT
Water Deliveries in Acre Feet

<i>Fiscal Year</i>	<i>Domestic Retail</i>	<i>Wholesale</i>	<i>Agriculture</i>	<i>Recycled Water</i> ⁽¹⁾	<i>Total Sales</i>
2016	63,673	2,641	6,403	32,037	104,754
2017	68,813	3,667	5,987	29,872	108,339
2018	77,020	4,089	5,251	36,185	122,545
2019 ⁽²⁾	66,803	3,849	5,432	25,811	101,895
2020	72,733	3,754	1,706 ⁽³⁾	29,191	107,384

⁽¹⁾ Differences from the “Recycled Water” production figures set forth in Table 6 reflect water loss as well as discharges of recycled water into local waterways during periods of heavy precipitation in accordance with the District’s discharge permits and recharge into groundwater basins. See the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—District Recycled Water Supply” and “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Regulatory Matters.” The District has undertaken capital improvements that it expects to enhance its ability to store recycled water during periods of heavy precipitation and sell it during periods of high demand, and has entered into the Alessandro Ponds Contract to finance one such project. See the captions “THE DISTRICT—Debt Structure of the District—Subordinate State Contracts” and “THE CAPITAL IMPROVEMENT PLAN—Financing of Capital Improvement Plan.”

⁽²⁾ Decrease reflects above average precipitation in such Fiscal Year.

⁽³⁾ Decrease reflects reduced water requests from LHMWD, which drew upon water stored in Lake Hemet prior to requesting water at wholesale from the District.

Source: Eastern Municipal Water District.

Water Sales and Deliveries

The District’s ten largest water system customers (including both retail and wholesale customers) accounted for approximately 8.22% of the District’s total water sales revenues in Fiscal Year 2020. These figures do not include recycled water users or agricultural customers.

For Fiscal Year 2020, the District had 155,803 domestic active billing accounts and 115 active agricultural/irrigation and other accounts. However, the number of billing accounts does not represent the actual number of District customers because one billing account can encompass multiple users or a multiple number of sites served. For example, one apartment complex can equal one billing account; in addition, if one developer owns two or more apartment complexes, the billing for all such complexes may be aggregated into a single billing account charged to that developer. A similar result may be obtained with respect to irrigation billing accounts. See the caption “DISTRICT SERVICE AREA” for historic water connections of the District.

The District also provides wholesale water service to the cities of Hemet, Perris and San Jacinto, Western Municipal Water District, LHMWD, Nuevo Mutual Water Company and DWR. In Fiscal Years 2018, 2019 and 2020, wholesale water sales totaled approximately 4,089 acre feet, 3,849 acre feet and 3,754 acre feet, respectively.

The following table sets forth the District’s ten largest domestic water customers by water sales revenues as of June 30, 2020.

TABLE 9
EASTERN MUNICIPAL WATER DISTRICT
Largest Domestic Water Customers as of June 30, 2020⁽¹⁾

<i>Customer Name</i>	<i>Sales in Acre Feet</i>	<i>Annual Revenues</i>
1. Western Municipal Water District ⁽²⁾⁽³⁾	1,809	\$ 2,256,909
2. City of Perris ⁽²⁾	1,647	2,165,023
3. City of Moreno Valley	761	1,382,846
4. Valley-Wide Recreation and Park District	693	1,319,567
5. Moreno Valley Unified School District	692	1,113,866
6. Val Verde Unified School District	437	747,878
7. City of Murrieta	357	666,384
8. Hyde Park Owners	363	629,892
9. City of Hemet ⁽²⁾	1,792	617,525
10. County of Riverside	<u>407</u>	<u>567,010</u>
Total	8,958	\$ 11,466,900
Total Fiscal Year 2020 domestic water sales	76,487	\$ 139,470,921
Top 10 customers as a percentage of total	11.71%	8.22%

⁽¹⁾ Data includes wholesale and retail potable water sales to all non-agricultural customers. Numbers are rounded.

⁽²⁾ Wholesale customer.

⁽³⁾ Sales relate to customers of Murrieta County Water District, which was purchased by Western Municipal Water District.

Source: Eastern Municipal Water District.

WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE

Wastewater Facilities

The District is currently divided into four sewer service areas—Hemet/San Jacinto, Moreno Valley, Temecula Valley and Perris Valley—for purposes of collection, transmission, treatment and disposal of wastewater. Each service area is served by a single regional water reclamation facility (each, an “RWRP”), for which costs and methods of treatment vary. The facilities are capable of treating approximately 74 mgd of wastewater and serve approximately 850,439 people. The facilities are linked to a network of nearly 1,850 miles of pipeline and 50 active lift stations. See the caption “DISTRICT SERVICE AREA” for historic wastewater connections of the District.

The reliable capacity, flow and average percentage of daily flows of each RWRP for Fiscal Year 2020 are provided below. See the caption “THE CAPITAL IMPROVEMENT PLAN” for a discussion of the District’s Capital Improvement Plan.

TABLE 10
EASTERN MUNICIPAL WATER DISTRICT
Regional Water Reclamation Facilities

<i>RWRF</i>	<i>Reliable Capacity (mgd)⁽¹⁾</i>	<i>Fiscal Year 2020 Daily Average Flow Treated (mgd)</i>	<i>Daily Average Flow as Percentage of Capacity</i>
Moreno Valley ⁽²⁾	15.0	10.5	70%
Perris Valley ⁽³⁾	22.0	14.4	65
San Jacinto Valley ⁽⁴⁾	14.0	7.1 ⁽⁶⁾	51
Temecula Valley ⁽⁵⁾	<u>23.0</u>	<u>14.2</u>	<u>62</u>
Total	74.0	46.2	62

⁽¹⁾ Reliable capacity is the capacity that is determined by the District to be appropriate under normal operating conditions, based on the RWRF's operating systems and filtration processes, to comply with State of California regulatory and operational constraints. See the caption "—Regulatory Matters."

⁽²⁾ Expansion to 16 mgd permitted capacity was completed in 2013. Reliable capacity is estimated at 15 mgd. See footnote (1).

⁽³⁾ Expansion to 25 mgd permitted capacity was completed in 2014. Reliable capacity is estimated at 22 mgd. See footnote (1). Perris Plant 1, which provides approximately 3 mgd of capacity, is currently out of service.

⁽⁴⁾ Expansion to 14 mgd permitted capacity was completed in 2015. See the caption "THE DISTRICT—Debt Structure of the District—Subordinate State Contracts."

⁽⁵⁾ Expansion to 23 mgd permitted capacity was completed in 2019.

⁽⁶⁾ Amount excludes diversions to Perris Valley RWRF which are included in Perris Valley RWRF flow amount.

Source: Eastern Municipal Water District.

Wastewater Facility Usage

Wastewater enters the District's facilities from three sources: (1) wastewater which is discharged from residences (e.g., houses and apartments); (2) wastewater which is discharged by businesses similar to residential discharge (e.g., office buildings, retail outlets and warehouses); and (3) wastewater which is discharged by users that may add contaminants or pollutants to the wastewater (e.g. restaurants, x-ray and photo processors, carwashes, vehicle repair facilities, dry cleaners and other industrial businesses).

The use of the sewer facilities is monitored by the District's Source Control Division (the "**Division**"). The Division is responsible for enforcing the District's Sewer Use Ordinance, which requires all dischargers to meet State of California and federal requirements for contaminants and pollutants. By monitoring discharges and enforcing pretreatment requirements, the Division regulates the wastewater entering District facilities to a quality suitable for all reclamation uses and ensures that the biosolids regulations are satisfied.

The Division also regulates and inspects over 1,600 other accounts which are authorized to discharge wastewater and administers residential pollution prevention activities to protect District sewer facilities and RWRFs.

Residential users who are not connected to the sewer system are provided service through the liquid waste hauler program, through which septic haulers can dispose of material in an economical manner at the Sanderson Lift Station in the Hemet/San Jacinto area or at the Perris Valley RWRF. These septic haulers are regulated through permits issued by the Division.

The Division also regulates dischargers to the nonreclaimable waste line collection system owned by the District. These dischargers are regulated through permits issued by the Division.

The District’s ten largest sewer system customers accounted for approximately 2.82% of the District’s total sewer service revenues in Fiscal Year 2020. The following table sets forth the District’s ten largest sewer system customers by sewer service revenues as of June 30, 2020.

TABLE 11
EASTERN MUNICIPAL WATER DISTRICT
Largest Sewer Customers as of June 30, 2020

<i>Customer Name</i>	<i>Annual Revenues</i>
1. Pechanga Resort and Casino	\$ 907,878
2. The Overlook at Rancho Belago	425,222
3. Murrieta Valley Unified School District	290,215
4. Val Verde Unified School District	239,463
5. Hyde Park Owners	237,523
6. Hemet Unified School District	207,743
7. Stonegate at Towngate	206,015
8. S-J Investments Property	185,038
9. Casabella Owner’s Association	176,669
10. Westwind Enterprises	<u>157,905</u>
Total	\$ 3,033,671
Total Fiscal Year 2020 sewer revenue	\$107,541,964
Top 10 customers as a percentage of total	2.82%

Source: Eastern Municipal Water District.

District Recycled Water Supply

The policy of the District is to promote the use of recycled water to provide for the conservation and reuse of all water resources and to utilize this resource for any approved purpose to the maximum extent possible under the laws of the State of California.

The District currently generates approximately 44 mgd of effluent at its four active RWRFs. In Fiscal Year 2020, approximately 61% (or approximately 30,650 acre feet) of the recycled water produced was beneficially used within the District’s service area. Unsold recycled water is typically transferred to storage ponds and utilized to meet peak demands or is used for incidental groundwater recharge; a small amount is also lost to evaporation. In accordance with its discharge permits, the District also discharges recycled water into local waterways during periods of heavy precipitation. Recycled water customers include 51 active agricultural sites, 4 golf courses, 508 landscape irrigation sites, 4 recreational clubs, 1 wildlife area, 1 power generation facility, 6 wholesale connections and 11 temporary construction meters. In Fiscal Year 2020, sales of recycled water in the District totaled \$8,061,905.

Recycled Water Facilities and Application of Recycled Water

In addition to the four RWRFs, the District’s recycled water facilities include approximately 220 miles of transmission and distribution pipelines, 24 pumping facilities and approximately 7,570 acre feet of storage and percolation ponds. All four of the District’s RWRFs provide tertiary recycled water.

The District has identified significant potential recycled water markets within proximity of existing District RWRFs and facilities. The types of markets identified include agricultural uses, golf courses, wetlands, cemeteries, commercial and industrial landscaping, park and school turf and purchasers of cooling water for power generation.

Regulatory Matters

As discussed above, the District owns and currently operates four RWRFs, a series of storage ponds, pump stations and distribution systems in its service area. The District's recycled water reuse program includes irrigation of agricultural, commercial and municipal landscaping sites and an environmental site in the San Jacinto Wildlife Area for migratory bird flyway ponds. The San Jacinto Valley RWRf, the Moreno Valley RWRf and the Perris Valley RWRf are located in the San Jacinto River basin within the jurisdiction of the Santa Ana Regional Water Quality Control Board (the "**Santa Ana RWQCB**"). The Temecula Valley RWRf is located within the jurisdiction of the San Diego Regional Water Quality Control Board (the "**San Diego RWQCB**"); however, the Temecula Valley RWRf is regulated by the Santa Ana RWQCB for the production of recycled water, as the majority of the effluent from the Temecula Valley RWRf is used in the San Jacinto River basin.

On March 5, 2020, the San Diego RWQCB issued Order No. 2020-0010 rescinding the Temecula Valley RWRf Permit Order No. R9-2000-165. Additionally, on March 4, 2020, the San Diego RWQCB issued a Notice of Applicability for Enrollment in Order WQ 2016-0068-DDW for recycled water use in the San Diego region. The Santa Ana RWQCB continues to regulate the Temecula Valley RWRf's production of recycled water.

On March 14, 2014, the Santa Ana RWQCB adopted Order No. R8-2014-0016 amending Order No. R8-2008-0008 (collectively, the "**Santa Ana RWQCB Permit**") authorizing the District to discharge or reuse recycled water from the RWRfs. The amendment incorporates revised local limits and the associated, revised Sewer Use Ordinance, and updates the salinity water quality objectives to reflect the District's Maximum Benefit basin plan amendment. The Santa Ana RWQCB Permit allows for the reuse of recycled water for non-potable water purposes in the San Jacinto River watershed. The Santa Ana RWQCB Permit does not have an expiration date; however, revision may be needed when there are system or regulatory changes.

In addition, on September 18, 2015, the Santa Ana RWQCB and the State of California issued Order No. R8-2015-0006 and NPDES Permit No. CA8000188, respectively (collectively, the "**NPDES Permit**"), authorizing the District to discharge effluent from the Perris Valley, Moreno Valley, San Jacinto Valley and Temecula Valley RWRfs and from Rancho California Water District's Santa Rosa RWRf to Temescal Creek in Riverside County. Temescal Creek is a tributary of Reach 3 of the Santa Ana River. The NPDES Permit has a 5-year term and the District has submitted a renewal application for the NPDES Permit. The existing terms of the NPDES Permit will remain in effect during the renewal process, which is expected to last into 2022.

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

The District is implementing a salinity and nutrient management plan (an "**SNMP**") for the San Jacinto River basin. The District is also implementing an SNMP for the Upper Santa Margarita River basin together with Rancho California Water District and Elsinore Valley Municipal Water District. In addition, the District has completed an SNMP for the Upper Temescal Valley Watershed together with Elsinore Valley Municipal Water District to support the NPDES Permit described above. This SNMP was submitted to and accepted by the Santa Ana RWQCB in 2017 and approved by the Santa Ana RWQCB for incorporation into the Santa Ana RWRCB Basin Plan in December 2020. Currently, the District and Elsinore Valley Municipal Water District are jointly monitoring surface water and groundwater as required by the Upper Temescal Valley Watershed SNMP.

On February 19, 1993, the EPA issued a final rule for the use and disposal of biosolids (Code of Federal Regulations Title 40, Part 503) ("the "**Biosolids Rule**"). The Biosolids Rule requires that producers of

biosolids meet certain reporting, handling and disposal requirements. Compliance with the biosolids disposal requirements of the Biosolids Rule is required under the Santa Ana RWQCB Permit.

Approximately 52,370 wet tons of biosolids were produced from the District's RWRFs in 2020 and reported to the EPA, the State of California and the State of Arizona. All RWRFs have belt press and centrifuge driers for sludge dewatering. The Temecula Valley and Moreno Valley RWRFs also have rotary drum sludge thickeners. Biosolids are the solid, stabilized organic materials generated from the wastewater treatment processes. The District's biosolids are currently hauled daily by a contractor to Arizona primarily for land application.

THE CAPITAL IMPROVEMENT PLAN

Background

The District's five-year Capital Improvement Plan (the "CIP") defines facility improvements to meet water, recycled water and wastewater demands associated with growth in addition to those projects necessary to maintain or replace existing facilities as they age.

The District has also developed a Capital Plan. The Capital Plan is the District's long term planning document that contains all of the water, wastewater collection, treatment system and recycled water capital improvements that are needed to support the buildout of existing jurisdictional General Plans throughout the District's service area. The Capital Plan relies on Facility Master Plans for each of these systems to identify the improvements needed, establish when they will be needed and provide updated estimates of their costs. The funding needed to support the District's short and long term expansion of these systems is then summarized in the Capital Plan. In fall 2016, the District completed a Facility Master Plan and Capital Plan using updated growth projections that take into account conservation policy and current land use data. The Facility Master Plan and Capital Plan become the documents from which the District develops its CIP. The CIP spans five years (in contrast to the long-term Capital Plan, which covers a period through buildout of various portions of the District's service area) and identifies proposed projects from the Facility Master Plans that are currently required, adds projects where necessary and defers projects when appropriate. The CIP schedules the necessary construction by project year and the financing necessary to meet this schedule.

The projects on the CIP are tracked during the current year and the entire five year program is reviewed and revised on an annual basis. During the annual review, projects are added, deferred or deleted based on current growth projections and any newly identified requirements are prioritized into the respective future years.

See the caption "WATER RESOURCES, FACILITIES AND USAGE—Groundwater Supplies—Other Programs" for a discussion of the SJV ERRP, which, if constructed as currently contemplated, would increase the District's groundwater supplies.

Financing of Capital Improvement Plan

The District expects to spend a total of approximately \$114.5 million in Fiscal Year 2021 on water, wastewater, recycled water and general capital improvement projects. The District anticipates that it will pay the costs of such projects from previously issued Subordinate Obligations and previously executed State Contracts as described in Table 13 below. The five-year CIP for the current and next four Fiscal Years is estimated to total approximately \$545.8 million, as summarized in the table below. All estimates include planning, design, construction, engineering, administration and right-of-way acquisition costs.

TABLE 12
EASTERN MUNICIPAL WATER DISTRICT
Capital Improvement Plan Capital Requirements (Dollars in Millions)⁽¹⁾

<i>Fiscal Year</i>	<i>Water</i>	<i>Wastewater</i>	<i>Recycled/Other</i>	<i>Annual Total</i>
2021	\$ 79.1	\$ 22.1	\$13.3	\$114.5
2022	70.5	31.6	6.3	108.4
2023	62.4	41.9	6.8	111.1
2024	69.6	37.3	4.7	111.6
2025	<u>59.5</u>	<u>35.5</u>	<u>5.2</u>	<u>100.2</u>
Total	\$341.1	\$168.4	\$36.3	\$545.8

⁽¹⁾ Totals may not add due to rounding.
Source: Eastern Municipal Water District.

The funds required to finance the CIP will be provided from a number of different sources. The estimated funds and their sources for the current and next four Fiscal Years are set forth in the following table. A portion of the District’s capital requirements will be met by external funds provided from the proceeds of executed State Contracts, anticipated additional State Contracts, previously issued Subordinate Obligations and grants from public agencies. The District does not currently expect to issue additional Subordinate Obligations or Parity Obligations to finance the CIP in the next five years.

TABLE 13
EASTERN MUNICIPAL WATER DISTRICT
Capital Improvement Plan Financing Sources (Dollars in Millions)⁽¹⁾

<i>Fiscal Year</i>	<i>District Pay-As-You-Go⁽²⁾</i>	<i>Subordinate Obligations and Approved and Additional State Contracts⁽³⁾</i>	<i>Annual Total</i>
2021	\$ 64.5	\$ 50.0	\$114.5
2022	61.3	47.1	108.4
2023	98.3	12.8	111.1
2024	111.5	0.0	111.5
2025	<u>100.2</u>	<u>0.0</u>	<u>100.2</u>
Total	\$435.8	\$109.9	\$545.8

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Includes grants.

⁽³⁾ Includes application of a portion of the proceeds of previously issued District bonds and executed State Contracts in Fiscal Year 2021, as well as application of the Alessandro Ponds Contract. See the caption “THE DISTRICT—Debt Structure of the District.”

Source: Eastern Municipal Water District.

Environmental Considerations

Discretionary projects undertaken by the District, including, without limitation, those undertaken in the CIP, are generally subject to the California Environmental Quality Act, Sections 21000-21178.1 of the California Public Resources Code, as amended (“CEQA”). Certain projects involving the participation of the Bureau of Reclamation, Department of the Interior or other federal agencies may also be subject to the National Environmental Policy Act of 1969, 42 United States Code § 4321 *et seq.*, as amended (“NEPA”).

A project that is subject to CEQA will take one of three paths: (1) Exemption; (2) Negative Declaration (an “ND”)/Mitigated Negative Declaration (a “MND”); or (3) Environmental Impact Report (an “EIR”).

Exempt projects are those that the State has determined to not require any further environmental review. In these cases, the agency fills out and files a Notice of Exemption explaining the reasons why the project is exempt under CEQA. This completes the environmental process for such projects. If not exempt, projects will either require an ND/MND or an EIR. A MND is a ND with the addition of mitigation measures to ensure that impacts are less than significant. To determine which document is appropriate, an Initial Study is prepared to determine the level of environmental impact that would result from the project. Following completion of the Initial Study, the agency prepares a ND/MND for those projects that would result in a less than significant impact on the environment. If the project has the potential to result in a significant unavoidable impact on the environment, the agency prepares and processes an EIR.

EIRs represent the highest level of review under CEQA. Contents of the EIR include: a detailed statement of the project's significant environmental effects; any such effects which cannot be avoided if the project is implemented; mitigation measures proposed to minimize such effects; alternatives to the proposed project; the relationship between local and short-term uses and long-term productivity; any significant irreversible environmental changes which would result from the project; the project's growth-inducing impacts; and a brief statement setting forth the agency's reasons for determining that certain effects are not significant and hence do not require discussion in the EIR.

Both NDs/MNDs and EIRs reflect the independent technical analysis of the project's potential impacts, input from responsible agencies with jurisdiction over the project and input from members of the public. Once an agency approves or determines to carry out a project, either following the MND or EIR process, it must file a Notice of Determination (an "NOD") within five working days of project approval with the clerk of the county in which the project is located. In certain cases, the NOD would also be filed with the State Office of Planning and Research. Any action or proceeding challenging the agency's determination must be declared in writing to the lead agency within 30 days following the filing of the NOD.

See the caption "WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Regulatory Matters" above for a discussion of the District's compliance with regulations related to its RWRFs.

HISTORICAL FINANCIAL OPERATIONS

Operating Revenues

Collection Procedures. Water and sewer rates are established by the Board and are not subject to regulation by the California Public Utilities Commission or by any other local, State of California or federal agency. The District bills monthly utilizing a meter reading and billing system for both water and sewer service. Payments are due upon receipt and become delinquent 15 calendar days after the billing date. When a bill for service has become past due and a discontinuance of service notice for nonpayment has been issued, service may be discontinued if the bill is not paid within the time required by such notice.

As part of the District's response to the COVID-19 outbreak which is discussed in the forepart of this Official Statement under the caption "COVID-19 OUTBREAK," the District has suspended service shutoffs for the duration of the state of emergency declared by the State (as discussed in the forepart of this Official Statement under the caption "COVID-19 OUTBREAK") and will not seek to collect late fees or penalties. Although no service charges are being forgiven, the District accounts receivable amount has increased as a result of the foregoing policy. As of May 1, 2021, approximately \$5,649,936 in combined water, recycled water and sewer charges is more than 60 days delinquent. The District has made payment assistance programs available to delinquent customers with household incomes below certain thresholds.

General. Water and sewer charges have been determined by the California Supreme Court to be fees or charges for purposes of Proposition 218. As a result, new or increased water and sewer rates are subject to majority protest proceedings and cannot exceed the cost of providing service. For a summary description of the

provisions and potential effect of Proposition 218 on the District, see the caption “—Certain Limitations on Taxes and Other Revenue Sources.”

Under the Master Resolution, the District is required to fix rates which are: (i) reasonably fair and nondiscriminatory; (ii) at least sufficient for the payment of all amounts to be payable from Net Water and Sewer Revenues in each Fiscal Year; and (iii) at least equal to: (1) 115% of Debt Service on all Parity Obligations plus the amount required to be deposited to the Operating Reserve Fund; and (2) 110% of Debt Service on all Parity Obligations and Subordinate Obligations plus the amount required to be deposited to the Operating Reserve Fund.

Under the Indenture pursuant to which the 2021B Bonds are being issued, to the fullest extent permitted by law, the District will fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water and Sewer Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during such Fiscal Year Net Revenues (defined as Net Water and Sewer Revenues less all payments due on Parity Obligations) equal to 115% of the Debt Service on all Subordinate Obligations for such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements.

See the forepart of this Official Statement under the caption “SECURITY FOR THE 2021B BONDS—Rate Covenant.”

The District’s wholesale and retail water rates and monthly sewer service charges are the District’s most easily adjusted source of revenue and the Board has historically adjusted such rates as necessary to pay for operations and capital needs not met by other revenue sources.

The projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” reflect the District’s updated rate allocation model (as discussed under the caption “—Water Rates and Charges” below), as well as increases in water and sewer rates averaging approximately 1.8% and 1.9%, respectively, as of January 1, 2022. All of such projected rate increases are subject to Board approval and the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such rate increases will be adopted as projected. See the caption “—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”

Water Rates and Charges. The District implemented a water budget-based tiered rate structure in April 2009. This structure was intended to reward water use efficiency and discourage water waste. The tiered rate structure was also intended to promote: (i) fairness; (ii) conservation; and (iii) revenue stability. On March 15, 2017, the Board approved a Cost of Service Rate Methodology (the “**Rate Study**”) which evaluated the cost of providing water service, including Maintenance and Operation Costs, to more closely align the allocation of water costs with residential and non-residential water rates.

On June 19, 2017, the Board adopted the District’s biennial budget for Fiscal Years 2018 and 2019, which updated the District’s rate allocation model to reflect the findings of the Rate Study. The updated tiered rate structure, which is effective as of January 1, 2018, is based on water budgets that apply to all single-family, multi-family and landscape accounts utilizing the domestic water system.

Tiers within the water budget are calculated to encourage efficient indoor and outdoor use as follows:

- (i) The indoor water budget is based on the gallons of water needed per person per day.
- (ii) The outdoor budget is based on a square footage of landscape, actual daily evapotranspiration and the following conservation factors:

<i>Account Installation Date</i>	<i>Residential Conservation Factor</i>	<i>Non-Residential Conservation Factor</i>
Prior to 12/31/2010	0.8	0.7
1/1/2011 – 5/31/2015	0.7	0.7
On or after 6/1/2015	0.5	0.5

Source: Eastern Municipal Water District.

The conservation factor can be adjusted up to 1.0 for functional areas at the discretion of the District. The conservation factor can also be adjusted temporarily by the District to establish or maintain water efficient landscaping during a drought.

(iii) Residential customers have a Tier 1 and Tier 2 rate applied to in-budget water use. Nonresidential customers have only a Tier 1 rate applied to in-budget water use.

(iv) An Excessive rate (Tier 3 for residential customers and Tier 2 for non-residential customers) is applied to a percentage of water use beyond the indoor and outdoor budgets.

(v) A Wasteful Rate (Tier 4 residential customers and Tier 3 for non-residential customers) is applied to wasteful water use that exceeds the Excessive Use tier.

Under the District’s rate methodology, water budgets do not align with a specific rate; instead the amount of water billed at each tier is based on the availability of specific water supply sources, which include groundwater, treated groundwater and more expensive imported supplies. All residential customers are billed at the Tier 1 rate for the first 20% of their monthly water budget, as that is the proportional amount of local, lowest-cost supplies available. The remaining portion of the water budget will be billed at the Tier 2 rate for budgeted supplies. Tier 3 and 4 rates cover any usage in excess of the total budget.

Since 2009, average water consumption per household has dropped as a result of the District’s current and prior tiered rate structures. The current tiers were developed taking into account the various sources of supply and the incremental cost of using each source to supply the needed demand. The District’s least expensive source of supply is groundwater and its most expensive source of supply is the desalters that are described under the caption “WATER RESOURCES, FACILITIES AND USAGE—District Water Facilities—Menifee/Perris Desalters.”

In addition to the above-described water commodity charges based upon usage, the District imposes a daily service charge to cover a portion of the water system’s fixed operating costs. The charge is \$0.46 as of January 1, 2021.

The Board also adopted an additional service charge (the “**Water Reliability Capital Charge**”) on June 18, 2014. The Water Reliability Capital Charge is \$4.26 per month per household as of January 1, 2021. The Water Reliability Capital Charge is intended to collect funds either to pay for water reliability projects and facilities on a pay-as-you-go basis or to repay debt obligations entered into to finance such projects. The District has not determined at this time whether or in what amount it would enter into debt obligations to finance such projects, nor has it considered whether any such debt would be payable from Net Water and Sewer Revenues on a senior basis to or on parity with the 2021B Bonds. The projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” reflect the imposition of the Water Reliability Capital Charge as described above.

The District’s current water commodity charges are set forth below. Such charges were approved by the Board on June 19, 2019 and were effective January 1, 2021:

TABLE 14
EASTERN MUNICIPAL WATER DISTRICT
Current Water Rates⁽¹⁾

Current Rates Effective
January 1, 2021

<i>Residential</i>	
Tier 1	\$ 1.13
Tier 2	3.63
Tier 3 (Excessive Use)	6.01
Tier 4 (Wasteful Use)	12.30
<i>Non-Residential⁽²⁾</i>	
Tier 1	\$ 3.77
Tier 2 (Excessive Use)	7.65
Tier 3 (Wasteful Use)	12.75

⁽¹⁾ Tiered rates are charged per 100 cubic feet (“CCF”). Tier 1 reflects usage of up to 3.6 CCF and Tier 1 reflects usage of between 3.6 CCF and 14.4 CCF.

⁽²⁾ Applicable to landscape accounts only. Excludes commercial, industrial and institutional accounts.

Source: Eastern Municipal Water District.

See the forepart of this Official Statement under the caption “LITIGATION—District—Water Rate Litigation” for a discussion of litigation filed against the District challenging the District’s water rates under Proposition 218.

Sewer Rates and Charges. Sewer rates set forth in the table below were approved by the Board on June 19, 2019 and were effective January 1, 2021. Sewer rates are based on daily service charges that vary by geographic location within the District’s service area. Currently, sewer daily service charges range from \$0.93 to \$1.27 per day, subject to the application of the sewer block factors outlined below.

Residential customers are assigned to one of four sewer blocks, determined by the number of people per household. Households with one to two people fall into Block 1 and those with seven or more residents fall into Block 4. Larger households have a higher block factor based on the assumption that they have higher sewer flows because they do more laundry and dishes, take more showers, etc. and, as a result, are charged a higher sewer rate. Sewer service billing is calculated using the block factor multiplied by the sewer rate.

Effective January 1, 2018 the Board adopted changes to the sewer blocks to reflect the current proportional demands on the wastewater system based on updated customer data. This is expected to result in cost savings despite a minimal increase in the sewer rates. The adopted block factors are as follows:

TABLE 15
EASTERN MUNICIPAL WATER DISTRICT
Sewer Rate Structure

<i>Block Number</i>	<i>Block Factor</i>	<i>Number of People in Household</i>
1	0.60	1 – 2 people
2	1.00	3 – 4 people
3	1.25	5 – 6 people
4	1.70	7 people or more

Source: Eastern Municipal Water District.

In addition to the above-described sewer rates based upon usage, the District imposes an additional sewer service charge (the “**Sewer Capital Charge**”) described in Table 16 below to cover a portion of the sewer system’s fixed operating costs. The current Sewer Capital Charge is \$2.75 per month per household. The Sewer Capital Charge is intended to collect funds either to pay for sewer capital projects and facilities on a pay-as-you-go basis or to repay debt obligations entered into to finance such projects. The District has not determined at this time whether or in what amount it would enter into debt obligations to finance such projects, nor has it considered whether any such debt would be payable from Net Water and Sewer Revenues on a senior basis to or on parity with the 2021B Bonds. The projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” reflect the imposition of the Sewer Capital Charge as described above.

Summary of Rates and Charges. Although rates and water budgets vary throughout the District, the following water and sewer rates are representative of those in effect within the District:

TABLE 16
EASTERN MUNICIPAL WATER DISTRICT
Water and Sewer Rates

<i>Service Area</i>	<i>Water (Effective January 1, 2021)⁽¹⁾</i>				<i>Sewer (Effective January 1, 2020)</i>	
	<i>Tier 1</i>	<i>Tier 2</i>	<i>Fixed Charges⁽²⁾</i>	<i>Average Monthly Rate⁽³⁾</i>	<i>Fixed Charges⁽⁴⁾</i>	<i>Average Monthly Rate⁽⁵⁾</i>
Perris Valley	\$1.13	\$3.63	\$0.602	\$73.80	\$1.5017	\$45.05
Menifee	1.13	3.63	0.602	73.80	1.1917	35.75
Fruitvale	1.13	2.67	0.602	59.98	1.1517	34.55
Diamond Valley	1.13	3.63	0.602	73.80	1.1517	34.55
Moreno Valley	1.13	3.63	0.602	73.80	1.1717	35.15
Temecula Valley	1.13	3.63	0.602	73.80	1.2917	38.75

⁽¹⁾ See Table 14 under the caption “—Water Rates and Charges” for a schedule of water rates and the updated water budget structure that went into effect January 1, 2021.

⁽²⁾ Shown on a daily basis. Water Fixed Charges include a \$0.46 daily charge for water service and a \$0.142 per day Water Reliability Capital Charge (\$4.26 monthly).

⁽³⁾ For example, a water billing with a water budget of 1,800 cubic feet for a period of 30 days in the Perris Valley service area would be calculated as follows: 20% of usage at Tier 1 rate of \$1.13 for 3.6 CCF + 80% of usage at Tier 2 rate of \$3.63 for 14.4 CCF + \$0.602 in fixed charges per day X 30 days = \$73.80.

⁽⁴⁾ Shown on a daily basis. Sewer fixed charges include the \$0.0917 per day Sewer Capital Charge (\$2.75 monthly) for accounts for which sewer service is rendered through District facilities.

⁽⁵⁾ For example, a sewer billing for 30 days of sewer service in the Perris Valley service area would be calculated as follows: 30 days X \$1.41 per day + \$0.0917 per day = \$42.30.

Source: Eastern Municipal Water District.

The District’s Consolidated Schedule of Rates, Fees and Charges, which includes a fuller description of rates and charges levied by the District, is available on the District’s Internet website. None of the information therein is incorporated herein.

The following table provides a summary of the District’s gross revenues from water and sewer service and recycled water for the last five Fiscal Years.

TABLE 17
EASTERN MUNICIPAL WATER DISTRICT
Water Sales and Sewer Service Gross Revenues

<i>Fiscal Year</i>	<i>Water Sales</i>	<i>Sewer Service</i>	<i>Recycled Water</i>	<i>Total</i>
2016	\$112,457,426	\$87,184,856	\$6,648,809	\$206,291,091
2017	120,870,937	92,536,116	7,792,169	221,199,222
2018	135,428,866	96,049,786	9,028,827	240,507,479
2019	132,847,172	102,037,610	7,034,622	241,919,404
2020	141,303,051	107,541,964	8,061,905	256,906,920

Source: Eastern Municipal Water District.

Non-Operating Revenues

Standby (Availability) Charges. Under the Law, the District may levy and collect an annual water standby charge (also referred to as an availability charge), as well as an annual sewer service standby or availability charge, on land within the boundaries of the District to which water and sewer services, respectively, are made available by the District, whether or not the water or sewer service is actually used. Each such charge may not exceed \$10 per acre per year for each acre (or parcel less than an acre) within the District, except that it may be up to \$30 per acre per year for each such acre or parcel if any charge in excess of \$10 per acre or parcel is used for the purposes of the particular improvement district in which the acre or parcel is located. Standby charges are collected annually by Riverside County on the secured property tax roll and remitted by Riverside County to the District.

The Law requires that standby or availability charges be approved by ordinance, which is subject to referendum, after public notice and hearing on the proposed charge. The most recently approved standby charges were approved on July 3, 2019 and became effective immediately.

The District currently levies these charges on the land within 15 of its water special improvement districts, 16 of its sewer special improvement districts and 3 of its combined water and sewer special improvement districts. The District also levies a separate charge on land within the entire District. The charges for the various special improvement districts for Zone 1 (that is, areas where service is being made reasonably available, either directly by the District or indirectly by a city, another water district or a water company) vary from a \$1.00 to \$15.00 per acre annual water charge and a \$7.50 to \$15.00 per acre annual sewer charge. The District has established 61 separate special improvement districts, of which 32 are water special improvement districts, 23 are sewer special improvement districts and 6 are combined water and sewer special improvement districts.

The District may, under circumstances specified under the Law, utilize an alternative procedure for fixing water or sewer standby or availability charges which does not limit the amount of such charges. The District has not utilized such procedure to date.

Standby charges are classified as assessments by the terms of Proposition 218. For a summary description of the provisions and potential effect of Proposition 218 on the District, see the caption “—Certain Limitations on Taxes and Other Revenue Sources.”

Connection Fees. The District has statutory authority to fix and impose upon the customers of the District one-time water and sewer connection fees. In addition, the District has statutory authority to fix and

impose upon the customers of the District one-time water and sewer frontage charges. As of Fiscal Year 2014, the District no longer imposes such frontage charges.

Connection fees include water and sewer capacity charges and water and sewer back-up charges. Sewer fees are charged based on a per equivalent dwelling unit (“EDU”) basis and water fees are charged based on an equivalent meter size (“EMS”) basis. The current connection fee rates effective January 1, 2021 are \$5,584 for water and \$8,985 for sewer.

Although one-time connection fees constitute current Water and Sewer Revenues of the District, these amounts are retained by the District for application to its restricted construction fund in accordance with State of California law and utilized for expansion-related projects or used to pay debt service on expansion-related projects which have been financed. See the caption “HISTORICAL OPERATING RESULTS” for connection fee revenues for the last five Fiscal Years.

Taxes. Moneys that are received from the District’s share of the Riverside County 1% tax levy constitute Water and Sewer Revenues and are available, but are not required to be used, to pay Maintenance and Operation Costs of the Water and Sewer System. Only those special improvement districts that received tax revenue when Proposition 13 became effective in 1978 are entitled to receive a share of the 1% county general purpose property tax levy, based on the allocation procedure under California law. The District received approximately \$41,014,090 in property tax revenue from its share of the Riverside County 1% tax levy in Fiscal Year 2020.

The District is expressly empowered under the Law to levy taxes on all taxable property within its boundaries for the purpose of paying the bonded indebtedness of its special improvement districts and, subject to certain limitations in the Law, the California Revenue and Taxation Code and the California Constitution, for other District purposes. Assessed valuation is determined by the Riverside County Assessor. Total assessed valuation of taxable property within the District for Fiscal Year 2020 was approximately \$85 billion, which was an increase of approximately 6.3% from the previous year. The District currently levies taxes only to service bonds of its special improvement districts. The tax rate levied to service outstanding general obligation bonds of the special improvement districts varies among the special improvement districts within the District. The proceeds of such taxes do not constitute Water and Sewer Revenues and are neither pledged to nor available to pay the 2021B Bonds.

Riverside County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (known as the Teeter Plan), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code. Accordingly, the County Auditor-Controller distributes 100% of property tax revenues allocated to each city in Riverside County without regard to delinquencies in the payment of property taxes. As a result of the implementation of the Teeter Plan by Riverside County, Riverside County apports secured property taxes and assessments on an accrual basis when due (irrespective of actual collections) to participating local political subdivisions for which Riverside County acts as the levying or collecting agency. The District does not participate in this plan. As a result, the District is subject to the risk of delinquencies in the amount of 1% *ad valorem* property taxes received by the District. Historically, however, the District’s receipt of penalties and interest from prior year delinquencies have more than offset current year delinquencies. See the forepart of this Official Statement under the caption “COVID-19 OUTBREAK” for a discussion of potential effects on property tax collections as a result of the COVID-19 outbreak. Riverside County has noted extend the April 10, 2021 property tax payment deadline as a result of the outbreak or waive penalties or fees for late payments.

Certain Limitations on Taxes and Other Revenue Sources

Article XIII A of the California Constitution. The taxing powers of California public agencies are limited by Article XIII A of the California Constitution, added by an initiative amendment approved by the voters on June 6, 1978, and commonly known as Proposition 13.

Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” which is defined as “the County Assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, a reduction in the consumer price index or comparable local data or declining property values caused by damage, destruction, or other factors.

The tax rate limitation referred to above does not apply to *ad valorem* taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978, or on any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition.

Under the terms of Article XIII A and pursuant to an allocation system created by implementing legislation, each county is required to levy the maximum *ad valorem* tax permitted by Article XIII A and to distribute the proceeds to local agencies, including special districts such as the District. The allocation of property tax revenues among special districts, while subject to certain statutory procedures and criteria, is largely discretionary with each county.

Assessed valuation growth allowed under Article XIII A (new construction, change of ownership and 2% annual value growth) is allocated on the basis of situs among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of base revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

The District normally receives between approximately 12 and 14% of its Water and Sewer Revenues (excluding connection fees) from the 1% property tax levy that Riverside County levies in accordance with Proposition 13. Prior legislation diverted approximately \$12.6 million of property tax revenues from the District for the benefit of school districts in each of 2005 and 2006.

It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of the 1% Riverside County property tax levy paid to the District. In the opinion of District management, any such legislation would not have an adverse effect on its ability to make payments on the District’s debt and contractual obligations, as the District would be able to compensate for any lost revenues through a combination of rate increases, cost efficiencies and/or cash reserves.

Under California law, any fee which exceeds the reasonable cost of providing the service for which the fee is charged is a “special tax,” which under Article XIII A must be authorized by a two-thirds vote of the electorate. Accordingly, if a portion of the District’s water or wastewater user rates or connection fees were determined by a court to exceed the reasonable cost of providing service, the District would not be permitted to continue to collect that portion unless it were authorized to do so by a two-thirds majority of the votes cast in an election to authorize the collection of that portion of the rates or fees. The reasonable cost of providing water and wastewater services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined that fees such as connection fees are not special taxes if they approximate the reasonable cost of constructing the water and wastewater capital improvements contemplated by the local agency imposing the fee.

Proposition 22. From time to time legislation has been considered as part of the State budget to shift 1% *ad valorem* property tax revenues from special districts to school districts or other governmental entities. The State fiscal year 2004-05 and 2009-10 budgets reallocated portions of special districts’ shares of the countywide 1% *ad valorem* property tax, shifting a portion of the 1% *ad valorem* property tax revenues collected by the County from special districts to school districts.

On November 2, 2010, California voters approved Proposition 22, which: (i) prohibits the State of California from shifting or delaying the distribution of funds from special districts to schools and community

colleges; (ii) eliminates the authority to shift property taxes temporarily during a severe financial hardship of the State; and (iii) restricts the State's authority to use fuel tax revenues to pay debt service on transportation bonds, to borrow or change the distribution of fuel tax revenues or to use Vehicle License Fee revenues to reimburse local governments for state-mandated costs.

Despite the passage of Proposition 22, there can be no assurance that the 1% property tax revenues that the District currently expects to receive will not be temporarily shifted from the District or reduced pursuant to State legislation enacted in the future. If the property tax formula is permanently changed in the future, it could have a material adverse effect on the receipt of its share of 1% property tax revenues by the District.

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

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

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

Pending clarification of certain of its provisions by the courts, or by the California Legislature, the full impact of Article XIII B on the amounts and uses of moneys to be deposited in the Water and Sewer Revenue Fund is not clear. However, to the extent that moneys in the Water and Sewer Revenue Fund are used to pay the costs of maintaining and operating the Water and Sewer System and debt service on Parity Obligations (including the funding of the debt service reserve funds) and Subordinate Obligations, such moneys should not, under the terms of Article XIII B, as supplemented by legislation, and based upon the official ballot argument supporting the measure, be held to be subject to the appropriation limit. The District is of the opinion that its water and wastewater charges do not exceed the costs that it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The District has covenanted in the Master Resolution and the 2021B Bonds that it will prescribe rates and charges that are sufficient to provide for payment of the 2021B Bonds and other Subordinate Obligations in each year. See the forepart of this Official Statement under the caption "SECURITY FOR THE 2021B BONDS—Rate Covenant."

Articles XIII C and XIII D of the California Constitution. Proposition 218, a State of California ballot initiative known as the "Right to Vote on Taxes Act," was approved by California voters on November 5, 1996 and became effective November 6, 1996. Proposition 218 amends the California Constitution by adding

Articles XIII C and XIII D and contains a number of interrelated provisions limiting the ability of local governments, including the District, to impose and collect both existing and future taxes, assessments, fees and charges.

Article XIII D establishes procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. The procedural requirements include written notice of assessments to the record owner of each parcel upon which such assessment is to be imposed, the conducting of a public hearing and an election by mailed ballot. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel.

Existing, new or increased assessments are subject to the procedural provisions of Proposition 218. However, certain assessments existing on November 6, 1996 are classified as exempt from the procedures and approval process of Article XIII D. Expressly exempt assessments include: (i) an assessment imposed exclusively to finance capital costs or maintenance and operation expenses for sewers, water, flood control and drainage systems, but subsequent increases are subject to the procedures and approval requirements; (ii) an assessment imposed pursuant to a petition signed by all affected landowners (but subsequent increases are subject to the procedural and approval requirements); (iii) assessments, the proceeds of which are used exclusively to pay bonded indebtedness, where failure to pay would violate the federal Constitution's prohibition against the impairment of contracts; and (iv) any assessment which has previously received approval by a majority vote of the voters (but subsequent increases are subject to the procedural and approval requirements).

Water standby charges and wastewater availability charges are classified as assessments and must comply with the provisions of Proposition 218 pertaining to assessments. Standby or availability charges that are imposed exclusively to finance the capital costs or maintenance and operation expenses of water or wastewater services which were in effect on the effective date of Proposition 218 need not comply with the approval process applicable to assessments generally. However, future increases in said charges are subject to the protest-election procedures in Article XIII D.

It is the District's belief that its water standby charges and wastewater availability charges are existing assessments imposed to finance capital costs or maintenance and operation expenses for water or wastewater service and are therefore exempt from both the procedural and substantive provisions of Article XIII D because they were in existence on November 6, 1996 and have not been increased in a manner prohibited by Article XIII D. However, in interpreting Proposition 218, a court could conclude that although existing standby or availability charges are exempt from the procedural requirements, such charges must still comply with the substantive provisions of Article XIII D, including the requirement that the assessment on each parcel not exceed the reasonable cost of the proportional special benefit to that parcel.

As discussed under the caption "WATER RESOURCES, FACILITIES AND USAGE—The Metropolitan Water District of Southern California," MWD currently imposes a water standby or availability charge that is allocated among MWD's member agencies, including the District. The charge is currently being imposed on parcels within the District. It is the District's understanding that MWD believes that Article XIII D does not apply to MWD's imposition of this standby charge. In the event that a court having proper jurisdiction concluded to the contrary and/or MWD's standby charge is discontinued, the District might have to pay the charge from other revenue sources or attempt to adopt its own standby charge. The protest-election procedures of Proposition 218 may adversely impact the District's ability to continue to pay the charge through levies on parcels in the District. In that event, there can be no assurance that the Net Water and Sewer Revenues of the District would not be adversely affected.

Article XIII D provides that nothing in Proposition 218 will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development. Therefore, it is the

District's belief that Proposition 218 does not apply to connection fees and sewer frontage charges, although there can be no assurance that a court would not determine otherwise.

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

An agency imposing or increasing a property-related fee or charge must provide notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests.

Article XIII D includes substantive provisions applicable to existing fees and charges, including provisions that: (i) revenues derived from the fee or charge may not exceed the funds required to provide the property-related service; (ii) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership may not exceed the proportional cost of the service attributable to the parcel; (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the property owner; and (v) no fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. In any legal action construing the validity of a fee or charge, the burden is on the agency to demonstrate compliance with Article XIII D.

Article XIII C provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIII C does not define the terms "local tax," "assessment," "fee" or "charge," so it was unclear whether the definitions set forth in Article XIII D referred to above are applicable to Article XIII C. Moreover, the provisions of Article XIII C are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the California Supreme Court (the "**Court**") held in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 ("**Bighorn**") that fees for ongoing water service through an existing connection (metered water rates) were property-related fees and charges to which Article XIII C applies.

The Court also ruled in *Bighorn* that water rates are subject to reduction by voters using the initiative power authorized by Article XIII C. The Court held that such water service charges may, therefore, be reduced as repealed through a local voter initiative pursuant to Section 3 of Article XIII C. At the same time, however, the Court ruled that voters may not use the initiative process to require that they approve proposed new or increased rates in advance of adoption by the agency which, the Court said, is free to adopt "other fees or impose new fees without voter approval." The Court noted that "[a]lthough this power sharing arrangement has the potential for conflict, we must presume that both sides will act reasonably and in good faith and that the political process will eventually lead to compromises that are mutually acceptable and both financially and legally sound."

The Court specifically declined to determine in *Bighorn* whether the voters' initiative power is limited by the statutory requirement that service charges must be set at a level that will pay for operating and maintenance, repairs, replacements, and debt service because "[t]hat issue is not currently before us." In any event, the District and its general counsel do not believe that Article XIII C grants to the voters within the District the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the District.

On August 3, 2020, the Court issued an opinion in *Wilde v. City of Dunsmuir* (Cal. S. Ct. S252915) holding that taxpayers do not have the right under Proposition 218 to challenge water rates by referendum, and the District does not believe that Article XIII C grants to the voters within the District the power (whether by initiative under Article XIII C or otherwise, or by referendum, which is not authorized under Article XIII C) to repeal or reduce rates and charges for water or sewer service provided by the District in a manner which would be inconsistent with the contractual obligations of the District.

However, there can be no assurance of the availability of particular remedies adequate to protect the Beneficial Owners of the 2021B Bonds. Remedies available to Beneficial Owners of the 2021B Bonds in the event of a default by the District are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain. In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2021B Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to the 2021B Bonds, including the opinion of Bond Counsel (the form of which is attached as Appendix D), are similarly qualified.

Based on the foregoing, the District's ability to adopt new fees or charges or increase existing fees or charges for water or wastewater service will be subject to both majority protest prior to adoption and may be subject to the initiative process thereafter. For similar reasons, wholesale customers of the District (for example, the cities of Perris, Hemet and San Jacinto and water districts such as Western Municipal Water District) may be limited in their ability to raise sufficient revenues through fees and charges to pay for wholesale services, which could also have an adverse impact on the District's ability to generate Net Revenues sufficient to pay the 2021B Bonds.

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal.App.4th 1493 (2015), upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion included a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The District's tiered water rates are described under the caption "—Operating Revenues—Water Rates and Charges." The District does not expect the *Capistrano Taxpayers Association* ruling to affect its water rate structure or to have a material adverse effect on its financial condition.

The District believes that its current water and wastewater rates and land based charges comply with the requirements of Proposition 218 and expects that any future water and wastewater rates and land based charges will comply with Proposition 218's procedural and substantive requirements to the extent applicable thereto.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the California Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for

entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The District does not believe that the enactment of Proposition 26 affects its ability to levy rates and charges for water or wastewater service.

In 2017, the Court held in *City of San Buenaventura v. United Water Conservation District* that groundwater pumping charges imposed by a groundwater management agency are not "property-related" charges that are subject to Article XIII D of the California Constitution, but remanded the case back to an appellate court to determine whether such charges are taxes under Proposition 26. In 2019, the appellate court ruled that there was not a sufficient record to determine whether the groundwater pumping charges were taxes under Proposition 26 and remanded the case back to a trial level court to hear arguments with respect to such matters. After a trial held in December 2020, the trial court held that United Water Conservation District had not met its constitutional burden of proof to show that its Municipal and Industrial groundwater pumping charges were not taxes, to the extent that those charges exceeded the cost of United Water Conservation District's services. As result of this finding, the City of San Buenaventura will be entitled to a writ of mandate and declaratory relief—the extent of such relief to be the subject of the next phase of proceedings. A case management conference was held on March 11, 2021 to facilitate the next phase of trial. The decision in this case may affect the District's ability to seek review of decisions of the San Jacinto Basin Watermaster. See the caption "WATER RESOURCES, FACILITIES AND USAGE—Groundwater Supplies—The Watermaster."

Pension Plan

This caption contains certain information relating to the California Public Employees Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The District has not independently verified the information provided by CalPERS and neither makes any representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports for the District, including a schedule of funding history and other information concerning benefits and other matters. Such information is not incorporated by reference herein. The District cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

CalPERS Plan Summary. The District contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan for all of the District's full-time and certain of its temporary employees. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California, including the District. CalPERS plan benefit provisions and all other requirements are established by State of California statute and the District's Board of Directors.

All full-time and certain part-time District employees are eligible to participate in CalPERS, with benefits vesting after five years of service. District employees who retire at age 55 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage

increments up to the maximum amount of their specific plan during their highest consecutive twelve month period, for each year of credited service. For employees hired prior to November 4, 2010 (referred to below as the “**first tier**”), the maximum amount is 2.5 percent, and for employees hired on or after November 4, 2010 and generally before January 1, 2013 (referred to below as the “**second tier**”), such amount is based upon CalPERS’ 2.0 percent at 55 formula. Employees hired on or after January 1, 2013 who were not already a member of a California public pension plan are subject to the California Public Employees’ Pension Reform Act of 2013 (“**AB 340**”), which was signed by the California Governor on September 12, 2012. AB 340 established a third pension tier of 2.0 percent at 62 with a maximum benefit formula of 2.5 percent at age 67. Benefits for the third tier are calculated on the highest average annual compensation over a consecutive 36-month period. See the caption “—AB 340” below.

The District is required to contribute actuarially determined amounts to fund its pension obligations. The District’s contribution rates for Fiscal Years 2019 and 2020 were equal to 8.69% and 9.54% of covered payroll, respectively. However, beginning in Fiscal Year 2018, CalPERS began collecting employer contributions toward a pension plan’s unfunded liability as dollar amounts instead of the prior method of a percentage of payroll. According to CalPERS, this change was intended to address potential funding issues that could arise from a declining payroll or a reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to underfunding of pension plans. Due to stakeholder feedback regarding internal needs for total contributions expressed as an estimated percentage of payroll, the CalPERS reports include such results in the contribution projection for informational purposes only. Contributions toward a pension plan’s unfunded liability will continue to be collected as set dollar amounts.

The total minimum required contribution is the sum of a plan’s Employer Normal Cost Rate (paid monthly as a percentage of payroll, and reflecting current year obligations) plus the Employer Unfunded Accrued Liability (the “**UAL**”) contribution billed in dollar amounts (reflecting previously earned pension benefits which have not been funded). Only the UAL portion can be prepaid. The District’s contribution for Fiscal Year 2020 was \$5,361,632 for the Employer Normal Cost and \$9,210,403 for the UAL. In the CalPERS Actuarial Valuation report dated July 2020, reported as of June 30, 2019, CalPERS provided an annual contribution rate for Fiscal Year 2021 of 10.289% for the Employer Normal Cost Rate and \$10,283,554 for the annual UAL prepayment.

For Fiscal Years 2019 and 2020, the District elected to make its annual UAL contributions in a lump sum pre-payment option to CalPERS in the amounts of \$7,786,422 and \$9,210,403, respectively. In Fiscal Year 2021, the District prepaid the lump sum UAL required contribution of \$10,283,554. The Employer Normal Cost contributions are paid monthly as part of the payroll reporting process. The District notes that contributions in future years could increase in the event of losses in CalPERS’ portfolio or CalPERS’ actual earnings coming in below its projections.

As discussed under the caption “—Post-Employment Healthcare Benefits,” the District budgeted a total of approximately \$19 million each Fiscal Year for contributions to a trust that the District established to fund post-employment benefits other than pensions. The \$19 million total amount exceeded the annual required contribution for such post-employment benefits in each Fiscal Year. As a result of such additional contributions, the District’s unfunded post-employment benefit liability reached \$0 in July 2020. The District has determined to continue budgeting a \$19 million annual payment each Fiscal Year, with such amount being applied toward its pension obligations beginning in Fiscal Year 2022. The portion of the contribution that exceeds the required minimum pension UAL contribution will be used to pay down the UAL.

Plan participants are required to contribute an actuarially determined percentage of their annual covered salary under the CalPERS plan (the “**Employee Contributions**”) in the amounts of 8%, 7% and 6.25%, for employees in the first, second and third pension tiers, respectively. The District previously contributed a portion of the Employee Contributions on behalf of employees (the “**EPMC**”) who are enrolled in the first and second tiers. Such EPMC contributions ceased at the end of 2018 as described below.

The EPMC for employees in the first pension tier was reduced over the three-year term of the District's prior memorandum of understanding with the Union; the District paid 6.5% of the 8% Employee Contribution (or 81.25% of the total Employee Contribution) in the first year (generally Fiscal Year 2014), 5.5% of the 8% Employee Contribution (or 68.75% of the total Employee Contribution) in the second year (generally Fiscal Year 2015) and 4% of the 8% Employee Contribution (or 50% of the total Employee Contribution) in the third year (generally Fiscal Year 2016). Employees in the first tier have been paying the full 8% Employee Contribution since January 1, 2019.

The EPMC for employees in the second tier is 3% of the 7% Employee Contribution (or approximately 43% of the Employee Contribution for employees in the second tier). Employees in the second tier have been paying the full 7% Employee Contribution since January 1, 2019.

Under AB 340, the District cannot and does not make EPMC contributions for employees in the third tier.

In Fiscal Year 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, Accounting and Reporting for Pensions ("GASB 68") for state and local governments. GASB 68 requires governments that provide defined benefit pensions to recognize long-term obligations for pension benefits as a liability on the balance sheet and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhanced accountability and transparency through revised and new financial statement disclosures and required supplementary information. Although GASB 68 is a change in defined pension benefits accounting reporting standards, it does not change the District's CalPERS plan funding obligations. See Note 6 and the Required Supplementary Information in Appendix B for further information with respect to GASB 68.

The following table summarizes the District's pension costs for Fiscal Years 2016 through 2020:

<i>Fiscal Year</i>	<i>Actuarially Determined Contribution (formerly Annual Required Contribution (A))</i>	<i>District-Funded Employee Contribution (EPMC) (B)</i>	<i>Employee Contribution (C)</i>	<i>Annual Pension Cost (A)+(B)+(C)</i>
2016	\$ 8,782,080	\$1,942,151	\$2,070,962	\$12,795,193
2017	9,699,290	2,461,058	1,654,254	13,814,602
2018	10,748,951	967,790	3,001,072	14,717,813
2019	12,446,689	307,526	3,704,362	16,458,577
2020	14,572,035	0	4,210,412	18,782,447

(A) Employer's share only.

(B) Portion of employee's share that is paid by the District (EPMC). Since January 1, 2019, the District no longer pays EPMC for employees in any of its pension tiers.

(C) Portion of employee's share that is paid by employee.

Source: Eastern Municipal Water District.

The District's CalPERS plan had a total net pension liability \$132,603,024 for the Fiscal Year ended June 30, 2018, \$132,789,256 for the Fiscal Year ended June 30, 2019 and \$142,220,668 for the Fiscal Year ended June 30, 2020. The net pension liability is the difference between the total pension liability and the fair market value of pension assets. The District's total pension assets include funds that are held by CalPERS and its net pension asset or liability is based on such amounts. The District notes that its net pension liability could increase in the future as a result of losses in CalPERS' portfolio or CalPERS' actual earnings coming in below its projections.

A summary of principal assumptions and methods used to determine the total pension liability for Fiscal Year 2020 is shown below.

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
<i>Actuarial Assumptions:</i>	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by entry age and service
Investment Rate of Return	7.5% net of pension plan investment and administrative expenses; includes projected inflation
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' membership data for all funds

⁽¹⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Scale MP 2016.
Source: Eastern Municipal Water District.

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

	<i>Increase / (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability / (Asset)</i>
Balance at June 30, 2019	\$475,903,504	\$333,682,836	\$142,220,668
Balance at June 30, 2018	<u>450,120,011</u>	<u>333,682,836</u>	<u>132,789,256</u>
Net Changes for period from July 1, 2018 through June 30, 2019	\$ 25,783,493	\$ 16,352,081	\$ 9,431,412

Source: Eastern Municipal Water District.

The following table presents the net pension liability of the District's Miscellaneous plan, calculated using the discount rate as of June 30, 2019 (which was applicable to Fiscal Year 2020 (7.15%)), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	<i>Discount Rate – 1% (6.15%)</i>	<i>Current Discount Rate (7.15%)</i>	<i>Discount Rate + 1% (8.15%)</i>
Plan's Net Pension Liability/(Asset)	\$207,365,676	\$142,220,668	\$88,334,402

Source: Eastern Municipal Water District.

On December 21, 2016, the CalPERS Board voted to lower its discount rate from the current rate of 7.50% to 7.00% over three years according to the following schedule.

<i>Valuation Date</i>	<i>Fiscal Year</i>	<i>Discount Rate</i>
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.250
June 30, 2018	2020-21	7.000

For public agencies such as the District, the new discount rate took effect July 1, 2018. Lowering the discount rate means that employers that contract with CalPERS to administer their pension plans will see increases in their Employer Normal Costs and UALs. Active members hired after January 1, 2013 will also see

their contribution rates rise under AB 340. The three-year reduction of the discount rate will result in average employer rate increases of approximately 1% to 3% of normal cost as a percentage of payroll for most miscellaneous retirement plans such as those of the District. Additionally, many employers will see a 30% to 40% increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring pension funds to a fully funded status over the long-term.

The practical effect of the above-described change in the discount rate is that the District’s contribution rates as a percentage of annual payroll are expected to rise as follows:

<i>Fiscal Year for Required Contribution</i>	<i>Projected Contribution Percentage of Payroll</i>
2018-19	23.4%
2019-20	26.1
2020-21	28.5

There can be no assurance that the CalPERS Board will not make further reductions in the discount rate which is applicable to the District’s pension plans in the future.

AB 340. On September 12, 2012, the California Governor signed AB 340, which implemented pension reform in California. Effective January 1, 2013, AB 340: (i) required public retirement systems and their participating employers to share equally with employees the normal cost rate for such retirement systems; (ii) prohibited employers from paying EPMC to such retirement systems for employees hired after January 1, 2013; (iii) established a compulsory maximum non-safety benefit formula of 2.5% at age 67; (iv) defined final compensation as the highest average annual pensionable compensation earned during a 36-month period; and (v) capped pensionable income at \$110,100 (\$132,120 for employees not enrolled in Social Security), subject to Consumer Price Index increases.

Other provisions reduced the risk of the District incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit. CalPERS estimated savings for local agency plans of approximately \$1.653 billion to \$2.355 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Savings specific to the District have not been quantified.

The District’s projections of Maintenance and Operation Costs under the caption “PROJECTED OPERATING RESULTS” assume modest increases in CalPERS normal cost contributions in the future. The District does not expect that any increased funding of pension benefits will have a material adverse effect on the ability of the District to make the 2021B Bonds.

See Note 6 and the Required Supplementary Information in Appendix B for further information with respect to the District’s pension plans.

401(a) Plan. District employees are not members of the federal Social Security system. However, the District contributes a portion of what ordinarily would be the District’s participation of Social Security taxes (using a rate of 7.15% on the first \$16,500 of annual compensation) to a special trust fund (the “**401(a) Plan**”) for each of its employees to provide additional retirement benefits. Total contributions to the 401(a) Plan for Fiscal Years 2018, 2019 and 2020 were \$787,033, \$779,568 and \$787,893, respectively. The District also makes discretionary contributions to the 401(a) Plan on behalf of the General Manager in accordance with the terms of his employment contract.

As of January 1, 2014, the District also contributes to the 401(a) Plan in an amount that matches a portion of the employees’ voluntary contributions made to the District-sponsored 457 Deferred Compensation

Plan. This matching contribution is up to 3.0%, 4.0% and 5.0% of annual base salary for calendar years 2018, 2019 and 2020, respectively. In Fiscal Years 2018, 2019 and 2020, employees voluntarily deferred \$3,360,339, \$3,611,186, \$3,760,450 and \$3,867,996, respectively, into the 457 Deferred Contribution Plan and the District provided matching funding of \$1,081,382, \$1,531,984 and \$1,839,422, respectively, into the 401(a) Plan. Currently, approximately 92% of employees voluntarily contribute to the District-sponsored 457 Deferred Compensation Plan; most, but not all, of those employees currently contribute at a rate which maximizes the District’s matching contribution. The District does not fund contributions into the 457 Deferred Compensation Plan.

Post-Employment Healthcare Benefits

The District provides post-employment health care benefits to all qualified employees who meet the District’s CalPERS plan requirements. This plan is an agent multiple-employer defined benefit other post-employment benefits (“OPEB”) plan with three tiers of retiree healthcare benefits depending on employee hiring dates.

In addition, the District provides post-employment group life insurance to eligible retired employees and elected officials with a death benefit of \$10,000 up to age 70 and \$5,000 thereafter for employees; and a death benefit of \$5,000 up to age 70 and \$2,500 thereafter for elected officials.

The benefit provisions for retired employee health care and life insurance are established and amended through the MOU between the District and the Union. See the caption “THE DISTRICT—Employee Relations.” The benefit provisions for retired elected official life insurance are established through the District’s contract with the life insurance company. The District does not issue separate stand-alone financial reports for these plans.

On April 18, 2012, the Board approved the establishment of an irrevocable OPEB trust (the “OPEB Trust”) and approved and authorized an agreement with CalPERS to administer the OPEB Trust on its behalf. The District established the OPEB Trust in Fiscal Year 2013 and made initial contributions to the OPEB Trust of approximately \$2,500,000. At the time the OPEB Trust was established, the District planned to contribute an amount approximately equal to 10% of the share of the 1% Riverside County general property tax levy that the District receives annually. See the caption “—Non-Operating Revenues—Taxes.”

The District’s annual OPEB actuarially determined contributions, actual OPEB contributions, the percentage of actual contributions to actuarially determined contribution and the net OPEB liability for the last five Fiscal Years were as follows:

<i>Fiscal Year</i>	<i>Actuarially Determined Contribution (formerly Annual Required Contribution)</i>	<i>Total Contribution</i>	<i>% of Actual Contributions to the Plan In Relation to Actuarially Determined Contribution</i>	<i>Net OPEB Liability (formerly Net OPEB Obligation)</i>
2016	\$ 9,769,135	\$ 9,769,135	100%	\$51,636,947
2017	10,062,209	17,562,209	175	43,807,182
2018	10,833,584	17,947,401	166	67,918,435
2019	10,934,835	19,240,938	176	56,851,211
2020	6,566,657	19,006,063	289	31,836,264

(A) Change is a result of the implementation of GASB No. 75 in Fiscal Year 2018.

(B) GASB No. 75 requires reporting the District’s Net OPEB Liability on its financial statements and was applied retroactively as of the beginning of Fiscal Year 2018.

Source: Eastern Municipal Water District.

A breakdown of contributions to the OPEB Trust in excess of the actuarially determined contribution is set forth below:

<i>Fiscal Year</i>	<i>Actuarially Determined Contribution</i>	<i>Contributions to OPEB Trust In Relation To Actuarially Determined Contribution</i>	<i>Additional Contributions to OPEB Trust</i>	<i>Total Contribution to OPEB Trust</i>
2016	\$ 9,769,135	\$ 9,769,135	\$ -	\$ 9,769,135
2017	10,062,209	10,062,209	7,500,000	17,562,209
2018	10,833,584	10,833,584	7,113,817	17,947,401
2019	10,934,835	10,934,835	8,306,103	19,240,938
2020	6,566,657	6,566,657	12,439,406	19,006,063

Source: Eastern Municipal Water District.

According to an actuarial report of the District’s OPEB liability dated April 23, 2021, the District’s net OPEB liability will be \$18,632,848 as of June 30, 2021. See the caption “PROJECTED OPERATING RESULTS” for projected contributions to the OPEB Trust for the current and next four Fiscal Years.

In October 2013, the District adopted a set of policy principles regarding its OPEB benefits and funding strategies, including, among others, the following:

- The District will continue to set minimum annual contributions to the OPEB Trust at a level equivalent to 10% of annual property tax receipts plus “pay-as-you-go” for retiree medical premiums.
- The District intends to achieve “full funding” of its OPEB benefits within 20 years, or by Fiscal Year 2033-34. Full funding is defined by the District as funding 90% of the accrued liability on an actuarial basis.
- The District intends to fully fund the OPEB actuarially determined contribution within 10 years, or by Fiscal Year 2023-24. The District met this goal in July 2020 (ahead of schedule).
- The District will adopt a second tier of benefits for future-hired employees based upon a maximum District contribution of the CalPERS-defined minimum monthly contribution provided for under the Public Employees Medical and Hospital Care Act, which is set at \$139 per month for 2020, and generally indexed by CalPERS annually to the Consumer Price Index.
- The District will continue to use appropriate assumptions in its assumed rates of return, rates of medical inflation, retirement ages and mortality tables in consultation with its professional actuaries.
- The District will consider using one-time gains in net operating margin to make additional contributions to the OPEB Trust to reduce the liability sooner and potentially achieve its funding goal sooner than Fiscal Year 2033-34.
- If necessary to achieve the funding goals noted above, the District will consider other funding sources including, but not limited to, a rate component and employee and/or retiree contributions.
- The District will formally re-evaluate funding strategies at least biennially, coincident with required actuarial valuations.

In furtherance of the above policy principles, the District implemented the new tier of benefits for employees hired on or after March 26, 2014. Based upon an actuarial study performed by Bartel & Associates, the expected present value savings associated with the implementation of significantly reduced benefits for future-hired employees exceeded \$100 million.

The District budgeted a total of approximately \$19 million each Fiscal Year for contributions to the OPEB Trust. The \$19 million total amount exceeded the annual required contribution for OPEB in each Fiscal Year. As a result of such additional contributions, the District’s unfunded OPEB liability reached \$0 in July 2020. The District has determined to continue budgeting a \$19 million annual payment each Fiscal Year, with such amount being applied toward its pension obligations beginning in Fiscal Year 2022. The portion of the contribution that exceeds the required minimum pension UAL contribution will be used to pay down the UAL. See the caption “—Pension Plan.”

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

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the District and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions are described in detail in Note 8 to Appendix B.

Under GASB Statement No. 75 (“**GASB 75**”), which was implemented in Fiscal Year 2018, the District reports its OPEB liability in its financial statements as part of its financial position. Because the District is responsible only for OPEB liabilities related to its own employees and because the District’s OPEB is administered through the OPEB Trust, the District reports a net OPEB liability—the difference between the total OPEB liability and assets accumulated in the OPEB Trust that are restricted to making benefit payments.

Changes in the net liability for the District’s OPEB plan were as follows.

	<i>Increase / (Decrease)</i>		
	<i>Total OPEB Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net OPEB Liability / (Asset)</i>
Balance at June 30, 2019	\$106,314,704	\$74,478,440	\$31,836,264
Balance at June 30, 2018	<u>112,600,561</u>	<u>55,749,350</u>	<u>56,851,211</u>
Net Changes for period from July 1, 2018 through June 30, 2019	\$ 6,285,857	\$18,729,090	(\$25,014,947)

Source: Eastern Municipal Water District.

The following table presents the net liability of the District’s post-employment benefits plan, calculated using the discount rate applicable to Fiscal Year 2020 (7.00%), as well as what the net post-employment benefit liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the Fiscal Year 2020 rate:

	<i>Discount Rate – 1% (6.00%)</i>	<i>Applicable Discount Rate (7.00%)</i>	<i>Discount Rate + 1% (8.00%)</i>
Plan’s Net Liability/(Asset)	\$45,947,959	\$31,836,264	\$20,195,742

Source: Eastern Municipal Water District.

GASB 75 also requires the District to present more extensive disclosures and required supplementary information about its OPEB liabilities in the notes to its financial statements. Among the new disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the District, a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a District actual OPEB contributions to its contribution requirements. The District has complied with GASB 75 beginning with its Fiscal Year 2018 financial statements.

The District’s projections of Maintenance and Operation Costs under the caption “PROJECTED OPERATING RESULTS” do not assume unusual increases in OPEB funding expenses in the future. However, future changes in funding policies and assumptions, including those related to assumed rates of investment return and healthcare cost inflation, could trigger increases in the District’s annual required contributions, and such increases could be material to the finances of the District. No assurance can be provided that such expenses will not increase significantly in the future. The District does not expect that any increased funding of post-employment benefits will have a material adverse effect on the ability of the District to pay the 2021B Bonds.

For additional information about the District’s OPEB plan, benefit tiers and contribution rates, see Note 8 in Appendix B.

District Reserves

See the caption “THE DISTRICT—District Reserve Policy” for information with respect to the District’s liquidity position.

HISTORICAL OPERATING RESULTS

The following table summarizes the District’s operating revenues, operating expenses and changes in net assets for the last five Fiscal Years. The operating revenues, operating expenses and changes in net assets in each of such Fiscal Years shown are derived from audited financial statements of the District. The audited financial statements of the District for Fiscal Year 2020 and the report thereon of Davis Farr LLP (the “**Auditor**”) are included as Appendix B to this Official Statement. The following table is derived from such audited financial statements and the audited financial statements for prior Fiscal Years, including the notes contained therein, and should be read in conjunction with discussion below the table. The summary operating results contained in the below table excludes certain non-cash items, including but not limited to mark-to-market swap values and pension liabilities reported pursuant to GASB 68, and reflect certain other adjustments. See Appendix B for further information with respect to such non-cash items. Debt service coverage set forth in the summary operating results is calculated in accordance with the Master Resolution and the Indenture pursuant to which the 2021B Bonds are being issued. See Appendix C for certain definitions relating to Net Revenues from which the 2021B Bonds will be paid. The Auditor has not reviewed or audited the summary operating results or any other portion of this Official Statement. The summary operating results are qualified in their entirety by reference to Appendix B, including the notes thereto, and Appendix C.

The District accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the District (“**GAAP**”), and the District applies all relevant Governmental Accounting Standards Board pronouncements. 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.

The District accounts for its operations on a fund basis. In governmental accounting, a fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Because the activities of the District receive significant support from fees and charges, it uses a proprietary (enterprise) fund. Enterprise fund accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.

An enterprise fund distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for domestic, agricultural, irrigation and recycled water sales, and sewer service charges. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation of capital assets.

Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater collection and treatment services. Non-operating revenues mainly consist of property taxes, availability (standby) assessments, investment income, connection fees and miscellaneous income. Capital contributions consist of facilities built by developers and turned over to the District to operate and maintain; and federal, state and private grants used to fund capital assets. Non-operating expenses mainly consist of debt service interest and debt-related fees.

The District uses the economic resources measurement focus and the accrual basis of accounting. Measurement focus determines what is measured in a set of financial statements and under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

See Appendix B for a discussion of the District's accounting practices. Except as otherwise expressly noted herein, all financial information that is derived from the information that is set forth in Appendix B reflects the application of GAAP.

TABLE 18
EASTERN MUNICIPAL WATER DISTRICT
Historical Operating Results
Summary of Modified Revenues and Expenses

	<i>Fiscal Year 2016</i>	<i>Fiscal Year 2017</i>	<i>Fiscal Year 2018</i>	<i>Fiscal Year 2019</i>	<i>Fiscal Year 2020</i>
OPERATING REVENUES:					
Water Sales	\$ 112,457,426	\$ 120,870,937	\$ 135,428,866	\$ 132,847,172	\$ 141,303,051
Sewer Service Charges	87,184,856	92,536,116	96,049,786	102,037,610	107,541,964
Recycled Water Sales	<u>6,648,809</u>	<u>7,792,169</u>	<u>9,028,827</u>	<u>7,034,622</u>	<u>8,061,905</u>
Total Operating Revenues	\$ 206,291,091	\$ 221,199,222	\$ 240,507,479	\$ 241,919,404	\$ 256,906,920
OPERATING EXPENSES:					
Water purchases	\$ 50,334,462	\$ 57,512,425	\$ 65,846,363	\$ 60,469,414	\$ 67,025,558
Water operations	43,582,087	44,089,564	44,202,187	46,398,474	49,180,247
Sewer operations	48,383,122	48,297,266	48,527,623	49,431,700	57,152,297
OPEB Trust ⁽¹⁾	9,478,577	9,732,444	7,852,804	7,223,073	4,351,821
General and administrative	<u>29,687,364</u>	<u>36,283,686⁽²⁾</u>	<u>43,901,997⁽³⁾</u>	<u>41,420,672</u>	<u>40,521,610</u>
Total Operating Expenses	\$ 181,465,612	\$ 195,915,385	\$ 210,330,974	\$ 204,943,333	\$ 218,231,533
OPERATING INCOME (LOSS)	\$ 24,825,479	\$ 25,283,837	\$ 30,176,505	\$ 36,976,071	\$ 38,675,387
NON-OPERATING REVENUES:					
Property taxes - General Purpose	\$ 32,271,305	\$ 33,971,127	\$ 36,294,389	\$ 38,204,912	\$ 41,014,090
Standby charges	5,784,242	5,831,357	5,769,853	5,828,077	5,779,756
Wastewater connection fees	33,147,973	27,982,278	31,045,813	37,665,884	29,670,764
Water connection fees	10,587,777	10,646,297	13,524,078	14,502,408	13,280,543
Water supply development fee	1,980,034	1,936,622	2,354,984	2,497,608	2,234,884
Interest income	3,405,039	4,733,897	8,181,973	11,897,412	10,506,376
Grants/Other Income/(Expenses)	<u>5,683,592</u>	<u>2,669,881</u>	<u>9,324,551</u>	<u>30,543,215⁽⁴⁾</u>	<u>37,137,249</u>
Total Non-Operating Revenues	\$ 92,859,962	\$ 87,771,459	\$ 106,495,641	\$ 141,139,516	\$ 139,623,662
NET WATER AND SEWER REVENUES FOR DEBT COVERAGE	\$ 117,685,441	\$ 113,055,296	\$ 136,672,146	\$ 178,115,587	\$ 178,299,049
PARITY OBLIGATION DEBT SERVICE:					
Parity Obligation Payments	\$ 22,545,830	\$ 15,651,578	\$ 4,907,150	\$ 4,988,750	\$ 4,868,750
State Contract Debt Service Payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Parity Obligation Debt Service	\$ 22,545,830	\$ 15,651,578	\$ 4,907,150	\$ 4,988,750	\$ 4,868,750
DEBT SERVICE COVERAGE	5.2 x	7.2 x	27.9 x	35.7 x	36.6 x
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS	\$ 95,139,611	\$ 97,403,718	\$ 131,764,996	\$ 173,126,837	\$ 173,430,299
SUBORDINATE OBLIGATION DEBT SERVICE					
Subordinate Obligation Payments	\$ 12,341,530	\$ 22,414,814	\$ 39,076,172	\$ 39,444,828	\$ 36,018,967
State Contract Debt Service Payments	<u>7,850,723</u>	<u>6,521,019</u>	<u>6,521,019</u>	<u>6,809,653</u>	<u>6,809,653</u>
Total Subordinate Obligation Debt Service	\$ 20,192,253	\$ 28,935,832	\$ 45,597,191	\$ 46,254,481	\$ 42,828,620
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE	4.7 x	3.4 x	2.9 x	2.7 x	4.0 x
REMAINING REVENUES	\$ 74,947,358	\$ 68,467,886	\$ 86,167,805	\$ 126,872,356	\$ 130,601,679
TOTAL DEBT SERVICE	\$ 42,738,083	\$ 44,587,410	\$ 50,504,341	\$ 51,243,231	\$ 47,697,370
ALL-IN DEBT SERVICE COVERAGE	2.8 x	2.5 x	2.7 x	3.5 x	3.7 x

⁽¹⁾ See the caption "HISTORICAL FINANCIAL OPERATIONS—Post-Employment Healthcare Benefits."

⁽²⁾ Increase from Fiscal Year 2016 includes a \$4.6 million increase in unallocated pension expense.

⁽³⁾ Increase from Fiscal Year 2017 includes a \$7.6 million increase in unallocated pension expense.

⁽⁴⁾ Increase from Fiscal Year 2018 includes receipt of grant moneys in the approximate amount of \$27 million.

Source: Eastern Municipal Water District.

The historical operating results of the District as presented in Appendix B reflect all sources of revenues and expenses from the District's audited financial statements, including general obligation-related revenues and expenses, depreciation, and other extraordinary book entries. In order to compare the projected operating results of the District set forth in Table 19 under the caption "PROJECTED OPERATING RESULTS" to the District's historical operating results set forth above in Table 18, a modified summary of revenues and expenses has been prepared. The following commentary is based on the modified summary.

The District's Net Water and Sewer Revenues include all gross income and revenue received or receivable by the District from its ownership and operation of the Water and Sewer System, including income derived from water and recycled water sales, sewer service charges, standby charges, water and sewer plant capacity charges, water and sewer back up charges, water and sewer frontage charges, water and sewer fees, annexation charges and certain investment earnings. The District budgets each year those revenues which are driven by expected customer demands on the system as part of its "Operating Budget." These revenues include water and recycled water sales, sewer service charges, standby charges, certain investment earnings and miscellaneous revenues derived from fees for service. These revenues are primarily used to pay for the Fiscal Year's operating expenses, capital outlays and research, and support the CIP. The balance of the net water and sewer revenues, water and sewer plant capacity charges, water and sewer back up charges, water and sewer frontage charges, water and sewer fees and certain investment earnings are appropriated each year to the construction fund to finance a major portion of the CIP. With the exception of the investment earnings, these revenues are part of the District's connection fee that is paid by the developer at the time arrangements are made with the District for water and/or sewer service. These revenues are reported as "Non-Operating" revenues and will have the biggest fluctuations from year to year due to being driven by economic conditions.

PROJECTED OPERATING RESULTS

The table of projected District revenues and expenses and debt service coverage for the current and next four Fiscal Years has been prepared by the District and reflects certain significant assumptions concerning future events and circumstances, including the assumptions that are set forth in the District's Fiscal Year 2021 budget, which was developed taking the COVID-19 pandemic into account. See the forepart of this Official Statement under the caption "COVID-19 OUTBREAK." The projected operating results contained in the below table exclude certain non-cash items, including but not limited to mark-to-market swap values and pension liabilities reported pursuant to GASB 68. This information has been provided for comparison purposes. The assumptions for operating revenue, operating expenses and debt service are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast, and such variations may be material. See Table 3 above under the caption "THE DISTRICT—Debt Structure of the District—Summary of Debt Service" for a fuller presentation of debt service with respect to outstanding Parity Obligations and Subordinate Obligations payable from Net Water and Sewer Revenues.

As discussed under the caption "WATER RESOURCES, FACILITIES AND USAGE—Water Supply Reliability," the California Governor and various State of California entities issued orders and regulations over the last several years in connection with the recent Statewide drought. Although mandatory water conservation orders are no longer in force, the District is currently implementing Stage 2 of its WSCP. The below projections reflect the continued implementation of Stage 2 of the WSCP to discourage wasteful water use. There can be no assurance that water supplies or sales will not differ materially from the below projections as a result of changes in hydrological conditions or the State of California or the District response thereto in future years. The District does not believe that the implementation of the WSCP will have a material adverse effect on its ability to generate sufficient Net Revenues to pay the 2021B Bonds when due given the District's imposition of fixed charges, including the Water Reliability Capital Charge and the Sewer Capital Charge described under the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues," as well as the District's efforts to diversify its water supplies and decrease its reliance on imported water that is purchased from MWD. See the caption "WATER RESOURCES, FACILITIES AND USAGE." The District has covenanted to set

rates and charges in amounts that are sufficient to pay the 2021B Bonds. See the forepart of this Official Statement under the caption “SECURITY FOR THE 2021B BONDS—Rate Covenant.”

TABLE 19
EASTERN MUNICIPAL WATER DISTRICT
Projected Operating Results
Summary of Modified Revenues and Expenses

	<i>Fiscal Year 2021⁽¹⁾</i>	<i>Fiscal Year 2022</i>	<i>Fiscal Year 2023</i>	<i>Fiscal Year 2024</i>	<i>Fiscal Year 2025</i>
OPERATING REVENUES:					
Water Sales ⁽²⁾	\$ 149,798,000	\$ 157,065,234	\$ 168,868,133	\$ 175,622,858	\$ 182,647,773
Sewer Service Charges ⁽³⁾	111,909,874	113,829,277	117,207,312	123,067,700	129,221,100
Recycled Water Sales ⁽⁴⁾	<u>8,328,000</u>	<u>8,487,832</u>	<u>8,726,737</u>	<u>9,163,100</u>	<u>9,621,300</u>
Total Operating Revenues	\$ 270,035,874	\$ 279,382,343	\$ 294,802,182	\$ 307,853,658	\$ 321,490,173
OPERATING EXPENSES:					
Water purchases ⁽⁵⁾	\$ 73,416,163	\$ 72,472,000	\$ 76,901,000	\$ 79,977,040	\$ 83,176,122
Water operations ⁽⁶⁾	53,639,361	58,837,543	61,002,641	63,442,747	65,980,457
Sewer operations ⁽⁷⁾	61,325,445	63,388,508	65,722,503	68,351,403	71,085,459
OPEB/Pension Trust ⁽⁸⁾	19,000,000	19,000,000	19,000,000	19,000,000	19,000,000
General and administrative ⁽⁹⁾	<u>42,952,907</u>	<u>45,100,552</u>	<u>46,904,574</u>	<u>48,780,757</u>	<u>50,731,987</u>
Total Operating Expenses	\$ 250,333,876	\$ 258,798,603	\$ 269,530,718	\$ 279,551,947	\$ 289,974,025
OPERATING INCOME (LOSS)	\$ 19,701,998	\$ 20,583,740	\$ 25,271,464	\$ 28,301,712	\$ 31,516,148
NON-OPERATING REVENUES:					
Property taxes - General Purpose ⁽¹⁰⁾	\$ 42,654,654	\$ 43,507,747	\$ 44,377,902	\$ 45,265,460	\$ 46,170,769
Standby charges ⁽¹¹⁾	5,837,554	5,895,929	5,954,888	6,014,437	6,074,582
Wastewater connection fees ⁽¹²⁾	31,806,900	27,952,335	29,072,261	30,225,804	31,413,859
Water connection fees ⁽¹³⁾	17,645,440	16,802,256	17,486,877	18,192,161	18,918,663
Water supply development fee ⁽¹⁴⁾	948,000	885,000	903,000	921,000	939,000
Interest income ⁽¹⁵⁾	4,150,000	3,750,000	5,000,000	5,625,000	6,000,000
Grants/Other Income/(Expenses) ⁽¹⁶⁾	<u>22,792,389</u>	<u>22,550,000</u>	<u>23,530,000</u>	<u>23,765,300</u>	<u>24,002,953</u>
Total Non-Operating Revenues	\$ 125,834,936	\$ 121,343,267	\$ 126,324,928	\$ 130,009,162	\$ 133,519,825
NET WATER AND SEWER REVENUES FOR DEBT COVERAGE ⁽¹⁷⁾	\$ 145,536,935	\$ 141,927,007	\$ 151,596,392	\$ 158,310,874	\$ 165,035,973
PARITY OBLIGATION DEBT SERVICE ⁽¹⁸⁾	\$ 4,875,625	\$ -	\$ -	\$ -	\$ -
PARITY OBLIGATION DEBT SERVICE COVERAGE ⁽¹⁹⁾	29.8x	N/A	N/A	N/A	N/A
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS ⁽²⁰⁾	\$ 140,661,310	\$ 141,927,007	\$ 151,596,392	\$ 158,310,874	\$ 165,035,973
SUBORDINATE OBLIGATION DEBT SERVICE⁽²¹⁾					
Subordinate Obligation Payments	\$ 42,048,682	\$ 49,545,838	\$ 50,561,388	\$ 50,357,447	\$ 51,730,999
State Contract Debt Service Payments	<u>8,562,187</u>	<u>8,562,187</u>	<u>8,562,187</u>	<u>8,562,187</u>	<u>8,562,187</u>
Total Subordinate Obligation Debt Service	\$ 50,610,869	\$ 58,108,025	\$ 59,123,575	\$ 58,919,634	\$ 60,293,186
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE ⁽²²⁾	2.8x	2.4x	2.6x	2.7x	2.7x
REMAINING REVENUES ⁽²³⁾	\$ 90,050,441	\$ 83,818,982	\$ 92,472,817	\$ 99,391,240	\$ 104,742,787
TOTAL DEBT SERVICE ⁽²⁴⁾	\$ 55,486,494	\$ 58,108,025	\$ 59,123,575	\$ 58,919,634	\$ 60,293,186
ALL-IN DEBT SERVICE COVERAGE ⁽²⁵⁾	2.6x	2.4x	2.6x	2.7x	2.7x

⁽¹⁾ Reflects budgeted Fiscal Year 2021 amounts with certain adjustments, including adjustments to reflect a decrease in housing starts as a result of the COVID-19 outbreak. See the forepart of this Official Statement under the caption "COVID-19 OUTBREAK."

(Footnotes Continued on Following Page)

(Footnotes Continued from Prior Page)

- (2) Based on District projections of increases in connections. Also reflects \$4.26 monthly Water Reliability Capital Charge and \$0.46 daily service charge. Assumes additional \$0.45 monthly increase to such fixed charges effective January 1, 2022, \$0.70 increase to such fixed charges effective January 1, 2023, and \$0.50 monthly increase to such fixed charges effective on each of January 1, 2024 and January 1, 2025. See the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues.” Water sales projected at approximately 79,000 acre feet in Fiscal Year 2021, rising to 82,200 acre feet in Fiscal Year 2025. Assumes increases in water rates of approximately 1.8% on January 1, 2022, 3.8% on January 1, 2023 and approximately 4.0% per annum thereafter. Increases in rates and charges are subject to Board approval and the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”
- (3) Based on District projections of increases in connections and projected rate increases of approximately 2.0% per annum to cover energy, labor and other operational costs. Also reflects \$2.75 monthly Sewer Capital Charge. See the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues.” Increases in rates and charges are subject to Board approval and the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”
- (4) Based on District projections of increases in connections and projected rate increases of approximately 5.8% effective January 1, 2022, 5.8% effective January 1, 2023 and 5.0% per annum thereafter. See the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues.” Increases in rates are subject to Board approval and the notice, hearing and protest provisions of Proposition 218 and there can be no assurance that such increases will be adopted as projected. See the caption “HISTORICAL FINANCIAL OPERATIONS—Certain Limitations on Taxes and Other Revenue Sources—Articles XIII C and XIII D of the California Constitution.”
- (5) Based on District projections. Does not include costs associated with water purchases for groundwater recharge purposes under the Settlement Act as described under the caption “WATER RESOURCES, FACILITIES AND USAGE—Groundwater Supplies—Soboba Settlement Agreement.” Assumes potable water supply mix of 70% imported water, or approximately 59,000 acre feet, in Fiscal Years 2021 through 2025.
- (6) Projected to increase by approximately 10% in Fiscal Year 2022 and approximately 4% per annum thereafter.
- (7) Projected to increase by approximately 4% per annum.
- (8) Reflects deposits to OPEB Trust in Fiscal Year 2021, as described under the caption “HISTORICAL FINANCIAL OPERATIONS—Post-Employment Healthcare Benefits,” and projected contributions toward pension obligations beginning in Fiscal Year 2022, including amounts in excess of annual required contributions. See the caption “HISTORICAL FINANCIAL OPERATIONS—Pension Plan.”
- (9) Projected to increase by approximately 5% in Fiscal Year 2022 and approximately 4% per annum thereafter. Increases reflect projections of higher wages and benefits due to contractual obligations.
- (10) Projected to increase by approximately 2% per annum, reflecting increased assessed values in the District service area and additional taxes received as a result of the dissolution of redevelopment agencies in the State of California and the concomitant elimination of certain tax increment sharing obligations. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Taxes.”
- (11) Projected to increase by approximately 1% per annum. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Standby (Availability) Charges.”
- (12) One-time charge revenues received from developers used to finance wastewater treatment plant facility expansions, transmission mains, sewer lift stations and disposal facilities. Reflects District projections of development within the District. Wastewater EDUs are projected to vary from 3,540 in Fiscal Year 2021 to 3,230 in Fiscal Year 2025. The proposed rates over the forecast period range from \$8,985 per EDU in Fiscal Year 2021 to \$9,726 per EDU in Fiscal Year 2025. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Connection Fees.”
- (13) One-time charge revenues received from developers used to finance water treatment plant facility expansions, distribution mains, water pumping plants, wells and storage tanks. Reflects District projections of development within the District. Water EMSes are projected to vary from 3,160 in Fiscal Year 2021 to 3,130 in Fiscal Year 2025. The proposed rates over the forecast period range from \$5,584 in Fiscal Year 2021 to \$6,044 in Fiscal Year 2025. See the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues—Connection Fees.”
- (14) Established in 2004 at \$300 per connection. Proceeds support projects that will provide for improved utilization of the District’s available resources. Projected to remain at \$300 over the forecast period. Projected revenue is based on the projected water EMSes described in Footnote (13).
- (15) As of June 30, 2020, the District had approximately \$409.5 million in available cash reserves, representing approximately 685 days’ cash on hand. The District’s total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately \$585 million and is invested in various securities with an average yield of approximately 0.61% as of February 28, 2021. See the caption “THE DISTRICT—District Reserve Policy.”
- (16) Includes delinquency charges, industrial permitting, meter rentals, plan checks and other miscellaneous revenues, which are projected to remain stable, plus grant revenues, less disposal of plant assets, abandonments, bad debt expense, special studies and miscellaneous interest expenses.
- (17) Operating Income (Loss) plus Total Non-Operating Revenues.
- (18) See the caption “THE DISTRICT—Debt Structure of the District—Parity Obligations.” These obligations matured on July 1, 2020.
- (19) Net Water and Sewer Revenues for Debt Coverage divided by Parity Obligation Debt Service.
- (20) Net Water and Sewer Revenues for Debt Coverage minus Parity Obligation Debt Service.
- (21) Interest on the 2021B Bonds is calculated at the assumed rate of 3.50% per annum. Interest on the 2018A Bonds is calculated at the assumed rate of 3.50% per annum. Reflects scheduled debt service on the 2015B IPA, the 2016A Bonds, the 2016B IPA, the 2017C Bonds, the 2017D IPA, the 2020A IPA and the 2021A Bonds, as well as scheduled debt service on State Contracts.
- (22) Revenues Available for Subordinate Obligations divided by Total Subordinate Obligation Debt Service.
- (23) Revenues Available for Subordinate Obligations minus Total Subordinate Obligation Debt Service.
- (24) Parity Obligation Debt Service plus Total Subordinate Obligation Debt Service.
- (25) Net Water and Sewer Revenues for Debt Coverage divided by Total Debt Service.

Source: Eastern Municipal Water District.

APPENDIX B
AUDITED FINANCIAL STATEMENTS

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Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2020

Perris, California



WATER
WASTEWATER
RECYCLED
WATER



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Comprehensive Annual Financial Report

For Fiscal Year Ended June 30, 2020



Prepared by the
Eastern Municipal Water District
Finance Department
2270 Trumble Road
Perris, CA 92570



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EASTERN MUNICIPAL WATER DISTRICT

Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2020

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EASTERN MUNICIPAL WATER DISTRICT

Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2020

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Introductory Section



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November 12, 2020

Board of Directors
Eastern Municipal Water District

We are pleased to present the Eastern Municipal Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020. State law and debt covenants require that the District publish, within six months and 180 days of the close of each fiscal year, respectively, a complete set of audited financial statements. This report is published to fulfill that requirement and to provide the Board of Directors (Board), the public and other interested parties these basic financial statements.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Davis Farr LLP, a firm of licensed certified public accountants, has issued an unmodified opinion on the District's financial statements for the year ended June 30, 2020. The independent auditors' report is presented as the first component of the financial section of this report.

Included are all disclosures management believes necessary to enhance your understanding of the financial condition of the District. Generally accepted accounting principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors in the financial section of this report.

Board of Directors

Ronald W. Sullivan, *President* Philip E. Paule, *Vice President* Stephen J. Corona Randy A. Record David J. Slawson

2270 Trumble Road • P.O. Box 8300 • Perris, CA 92572-8300

T 951.928.3777 • F 951.928.6177 www.emwd.org

Profile of the District



The Eastern Municipal Water District (District) was incorporated in 1950 under the Municipal Water District Act of 1911 and the provisions of the California Water Code. The District's primary purpose was to import Colorado River water to its service area to augment local water supplies. Prior to the District's formation, the local water supply was primarily from groundwater wells.

The District is governed by a five-member Board of Directors elected by the public for a four-year term, each representing comparably sized districts based on population. This five-member Board is responsible to the general public within the District for proper conduct of District affairs. The District is a member of the Metropolitan Water District of Southern California (MWD), a cooperative organization of twenty-six member agencies responsible for providing imported water to Southern California.

The District is located in Southern California and its service area lies within western Riverside County, encompassing approximately 555 square miles. In 1951, the District's service area consisted of 86 square miles. Today, growth has resulted from annexations ranging in area from 1 to 72,000 acres. The assessed valuation has grown from \$72.0 million when formed to approximately \$85.0 billion for this past fiscal year. The District is divided into separate regional service areas for water service and sewer service.

Riverside County has a population of 2.5 million people. Of this population, the District serves approximately 850 thousand or 34 percent, including the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Canyon Lake, Wildomar and unincorporated areas in Riverside County. A map of the service area is on page 19 of this report.

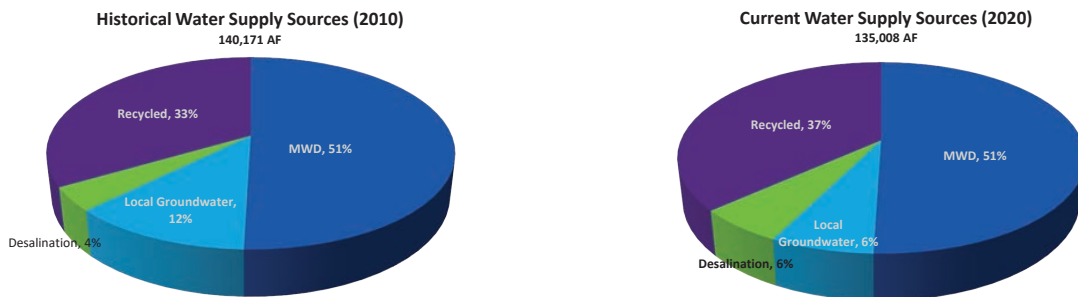
The mission of the District is to deliver value to its customers and the communities it serves by providing safe, reliable, economical, and environmentally sustainable water, wastewater, and recycled water services. The District provides three primary products and services: potable water, wastewater collection and treatment and recycled water.

The District's approximately 610 employees are responsible for providing excellent customer service driven by standards to provide safe, reliable, economical, and environmentally friendly services.

Water Supply and Reliability

The District's total water supply includes 12 percent local groundwater, 51 percent imported water and 37 percent recycled water. The sole source of the District's imported water is MWD.

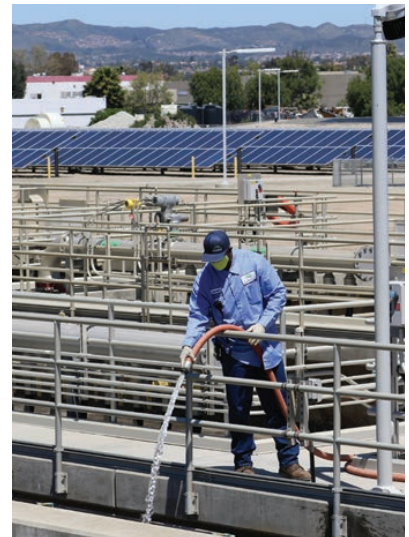
The District has made significant efforts to provide a safe and reliable supply of water and diversify the sources of water. In 2010, the District received 51 percent of its water through purchases from MWD, which in turn obtains its water supply from two primary imported sources: the Colorado River via the Colorado River Aqueduct and the State Water Project via the Edmund G. Brown California Aqueduct. Other sources of water supply in 2010 were 33 percent recycled water and 16 percent local groundwater and desalination. In 2020, the District entered into a cyclic purchase agreement with MWD, whereby the District would purchase additional treated water in lieu of well production. The 4,337-acre feet cyclic purchase resulted in a credit from MWD of \$975 thousand, which lowered the treated purchase cost.



Sewer and Recycled Water Services

For the purposes of transmission, treatment and disposal of wastewater, the District is divided into five sewer service areas: Hemet/San Jacinto, Moreno Valley, Sun City, Temecula Valley, and Perris Valley. Each service area is served by a single regional water reclamation facility (RWRF), for which methods of treatment vary. The facilities are capable of treating 69 million gallons per day (MGD) of wastewater and serve approximately 850 thousand people. Customers' monthly bills include a daily service charge based on household size, which covers the fixed and variable costs of operating the sewer system and contributions to infrastructure replacement costs. They are linked through a network of 1,868 miles of pipeline and 48 active lift stations.

The District currently generates approximately 45 MGD of effluent at its regional water reclamation facilities. The District's goal is to reuse 100 percent of the water from the treatment plants and offer recycled water for sale to customers within the District's service area. In doing so, the District reduces the need to import water or to use other local groundwater supplies. In 2020, approximately 29,191-acre feet or 58.9 percent of recycled water produced was sold to customers. This was lower than anticipated due to the unusually heavy rainfall amounts in the first quarter of the calendar year 2020.



The Local Economy



The District is located within Riverside County which is the fourth largest county in the State. Riverside County and San Bernardino County comprises the Inland Empire which is one of the fastest growing metropolitan areas in the nation. The Inland Empire covers more than 27,000 square miles with a population of about 4.6 million. In 2019, the Inland Empire's job growth of 2.0 percent exceeded the national and state rates of 1.4 percent and 1.8 percent, respectively. This growth rate also surpassed Los Angeles metro area's 1.3 percent and Orange County's 1.2 percent and matches San Diego County's 2.0 percent. This is partially driven by the more affordable housing compared to surrounding areas. Unemployment was previously forecasted to stay low at 4.2 percent and had averaged about 4 percent; however, the Coronavirus (COVID-19) pandemic caused a spike of 15.1 percent unemployment in May 2020. This rate is consistent with the national unemployment increase due to

the pandemic. Restaurants, entertainment, and retail are sectors among others whose unemployment rates were most affected by the pandemic.

The Inland Empire is an affordable housing alternative to the higher priced homes in the coastal regions of Southern California and is expected to continue as the fastest growing part of Southern California over the next few years due to homes having more space and being more affordable. The region has continued to see a steady increase in real estate prices due to low inventory of houses for sale and increasing demand resulting from higher income and migration to the region. The median price of homes in the region was \$471 thousand, an increase of 11.0 percent in one year compared to \$971 thousand in Los Angeles and Orange Counties with an increase of 14.0 percent in one year. The Inland Empire had 8,530 total listings, a decrease of 47.0 percent in one year compared to 17,355 total listings in Los Angeles and Orange Counties, with a decrease of 26.0 percent. New escrows in the Inland Empire have increased by 5.5 percent in one year compared to a 3.8 percent increase in Los Angeles and Orange Counties. Non-residential construction, which was depressed from 2009 to 2012, bounced back in 2013 with an increase of new investment in the retail and industrial sectors with several large infrastructure projects and notable growth in the warehousing sector. Permitting for industrial space grew the most in Riverside County, increasing 365 percent year to date through the second quarter of 2017. During the first three quarters of 2018, the total value of building permits increased 20.5 percent. Non-residential construction for 2020 is projected to be 11.8 percent lower than 2019 with the biggest decrease in commercial buildings.

Business activity in the Inland Empire had seen a steady increase since 2012, however, that came to a halt in the first quarter of 2020 when GDP fell 0.2 percent due to COVID-19. The second quarter was far worse with a decrease of 26.5 percent. Health care spending drove this decrease, as it has also done nationally, as non-essential procedures were delayed in anticipation of a surge of COVID-19 patients. The construction sector had a strong year in 2017 and continued to grow in 2018 due to strong demand for housing and other construction activities including building of roadways, other transportation projects and massive e-commerce centers. Most e-commerce centers in Southern California are built in the Inland Empire, including Amazon's 10 e-commerce centers with two more to build.

Riverside County’s property assessment roll for the fiscal year 2019 exceeded the record set in fiscal year 2008 with a value of \$286 billion, a 6.3 percent increase over fiscal year 2018. The amount for fiscal year 2020 has continued to increase with a value of \$302 billion, a 5.6 percent increase over fiscal year 2019. This is the seventh consecutive year of growth, exceeding the County’s peak assessment roll of \$242.9 billion in 2008.

The District’s property assessment roll for its service areas increased \$5.1 billion or 6.7 percent in fiscal year 2020. The District’s service area includes the cities of Temecula, Murrieta, Menifee, Hemet, San Jacinto, Moreno Valley, Perris, Canyon Lake, and Wildomar as well as unincorporated areas in Riverside County. The largest growth among the District’s incorporated service area is in the cities of Perris, 9.9 percent; Moreno Valley, 8.8 percent; and Menifee, 8.4 percent.

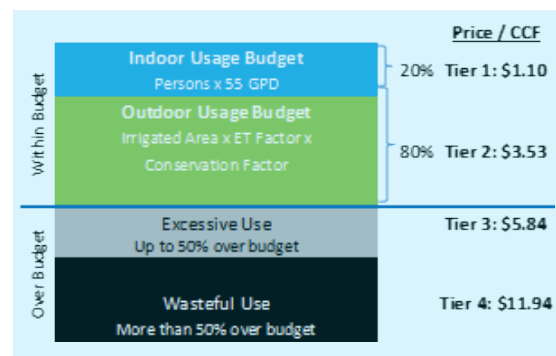
The District is conveniently accessible by truck and rail service from several significant national and international cargo facilities including the Port of Los Angeles/Long Beach complex, Los Angeles International Airport, Ontario International Airport, San Diego International Airport, and the Port of San Diego. Additionally, the March Air Reserve Base (MARB), a 12 square-mile airfield and logistics center, is located in the District.

Sound Financial Policies and Practices

The District continues to manage funds to ensure financial stability and demonstrate responsible stewardship by sustaining reasonable rates for customers, containing costs through careful planning, preserving investments, safeguarding reserves, and active debt management.

Water and Sewer Rates

In 2017, the District completed a cost of service study resulting in a new rate structure, moving from tiered water rates aligned to indoor and outdoor water budgets to new tiered water rates aligned to the District’s sources of water supply. The objectives of the study were to simplify and develop a consistent rate structure for all customers, to provide sufficient revenue for the District to recover operations and maintenance costs incurred in providing water service and to proportionately allocate these costs among customers. This new water rate structure was adopted by the Board in December 2017 with an effective date of January 1, 2018.



The use of water budgets for the District’s residential customers was first implemented in 2009. These customers received a monthly water budget allocation customized to meet their household and landscape irrigation needs. Effective January 1, 2018, under the new rate structure, customers continued to receive water budgets based on household and landscape size, however, these budgets no longer align with a specific rate. The amount of water billed for each tier is now based on the availability of the District’s water supply sources such as groundwater, treated groundwater and imported water. All residential customers are billed at the low volume, Tier 1 rate for the first twenty percent of their monthly budget, according to the proportional amount of local, low cost water supplies available. The remaining portion of the water budget is billed at the Tier 2 budgeted rate for budgeted supplies and the Tier 3 and Tier 4 rates cover usage in excess of the total budget. With the new rate structure, water efficient households realize cost savings and customers who stay within their water budgets pay the lowest cost for water.

The Board approved increases in these charges will recover the cost in the water rate structures’ three primary charges, the daily service charge based on water meter size, the water supply and reliability capital charge that supports the

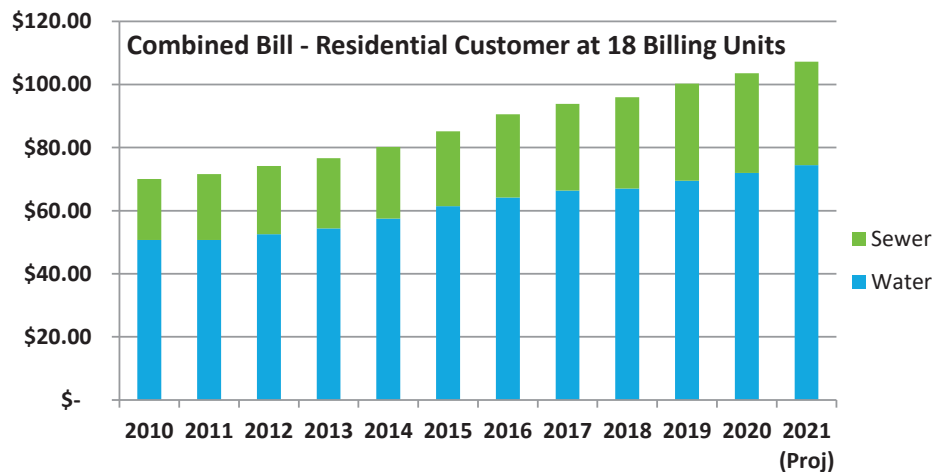
District's ongoing capital projects and the water use or commodity rates charged for each unit of water used (tiered rate). The impact to a typical water bill is approximately \$2.45 per month in 2020 and \$2.46 in 2021.

Effective January 1, 2020, sewer rates increased to recover the cost to collect, treat and recycle or dispose of wastewater. The sewer system capital projects charge also increased to provide funds for future sewer system capital improvement projects essential for maintaining the District's four water reclamation facilities and meeting regulatory and environmental requirements. The impact to a typical sewer bill is approximately \$.91 per month in 2020 and \$1.22 per month in 2021.

The District's sewer rates are calculated using a baseline daily service charge and block factors based on household occupancy. Residential customers are assigned from one to four sewer blocks depending on number of people in the household. The new sewer rate structure better reflects the demands on the sewer system based on updated customer data. Blocks 1 and 4 proportions are reduced and is expected to result in cost savings with a minimal increase in rates.

The Board approved nominal water and sewer rate increases also reflect the increased costs of imported water, rising maintenance and environmental regulatory compliance costs and investments in technology and infrastructure.

The chart below reflects the monthly charges for an average four-person household residential customer with an average monthly consumption of eighteen billing units (ccf):



Water Use Efficiency

The District has established itself as a statewide leader in water use efficiency and continues to promote water conservation through investments in infrastructure, technology, education, and community outreach programs.

In 2009, the District first implemented the use of water budgets for its residential customers. The tiered water rate structure was designed to promote water conservation by encouraging efficient water use and discouraging wasteful water usage. All residential customers received a monthly water budget allocation customized to meet their specific household and landscape irrigation needs. The rate structure set budgets for indoor usage and usage in excess of the total budget.

In 2017, the Board adopted a new water rate structure, adjusted to meet new State standards that call for making water

efficiency a permanent way of life. The changes maintained the principles behind the District's rate structure, reflecting the cost of service while rewarding customers who use less and penalize those who are wasteful.

In 2019, the District launched its WaterWise Plus program, a comprehensive and forward-thinking program designed to assist customers and partner agencies with finding new and cost-effective ways to become more water efficient. The program integrates existing water use efficiency-based programs with long-term solutions that are promoted regardless of drought conditions. These programs help customers make lifestyle changes to their water use habits resulting in becoming more efficient with their water use, gaining a better understanding of their water usage, and making them better able to manage their monthly bills.



The District offers a wide range of free and low-cost programs for its residential customers, including partnering with the Metropolitan Water District of Southern California (MWD) in promoting and offering regional indoor and outdoor rebate opportunities to help customers stay waterwise. Residential programs and rebates include the smart controller direct install program, free conservation scorecard, SoCal WaterSmart rebates, free deep drip watering stakes and free conservation packets. The District's Demonstration Garden is also available for customers to view to obtain ideas on various water efficient and sustainable landscape options.

The District is also working with government agencies and the business community to develop long-term sustainable approaches to see the benefits that the average residential customers may realize. It is partnering with the cities it serves in introducing a landscape transformation program, promoting investments in climate appropriate landscaping in commercial, industrial, and instructional areas through turf replacement programs. The District is also partnering with its local agricultural customers to better understand current irrigation practices and to incorporate programs that will further assist local farmers in managing their water use.

The District is an industry leader in recycled water, one of the largest by volume recyclers in the nation and one of the few agencies that achieves 100 percent beneficial reuse. Its recycled water system receives and treats more than 45 million gallons of wastewater each day at its four operating regional treatment plants. About 75 percent of the District's production is sold to agricultural irrigation, landscaping, and industrial customers. It also serves several schools, parks, cities, and county streetscaping, HOA landscape areas, golf courses, wetlands habitat areas and industrial cooling towers. The District has the ability to store more than two 2 billion gallons of recycled water. With significant urban development, it is prepared to manage the increase in recycled water production and is securing the regions' water future through Water Banking and its groundwater reliability efforts.

Financial Planning

The Board approves a biennial budget as a management tool. The biennial budget is developed with input from the various departments within the organization and adopted prior to the start of each fiscal year. Monthly comparison reports of budget to actual are prepared, and quarterly budget-to-actual results by system are provided to and discussed with the Board, along with financial position and other key performance information.

The District prepares a five-year financial plan to anticipate funding needs, reserve levels, and expected impacts to rates. A key component to the plan is the District's Capital Improvement Plan (CIP), which calls for total expenses for water, sewer, and recycled water facilities of approximately \$449.8 million for the period from 2021 through 2025. The CIP is expected to be financed through a combination of property taxes, developer connection fees, rates, and charges,

publicly financed bond proceeds, reserves, grants and low-interest loans from the California State Revolving Fund. The CIP is modified on an annual basis to reflect updated assumptions regarding future growth within the District's service area.

As many public agencies have faced difficult financial realities due to the ongoing pandemic and economic downturn, the District was recently reaffirmed as a model of financial stability by the major rating agencies.

In September 2020, the District was reaffirmed as an Aa2 agency by Moody's Investor Services for its subordinate revenue bonds and is also the holder of a AAA rating for its parity revenue bonds by Standard and Poor's, the highest possible rating that can be assigned. These excellent ratings result in lower interest rates when issuing bonds for critical infrastructure projects that enhance system reliability while also keeping rates low for its customers.

The District's allocation-based rate structure and its recovery of fixed costs, through daily service charges instead of volumetric water use, is a major factor in its high rating with Moody's, Standard and Poor's and Fitch rating agencies.

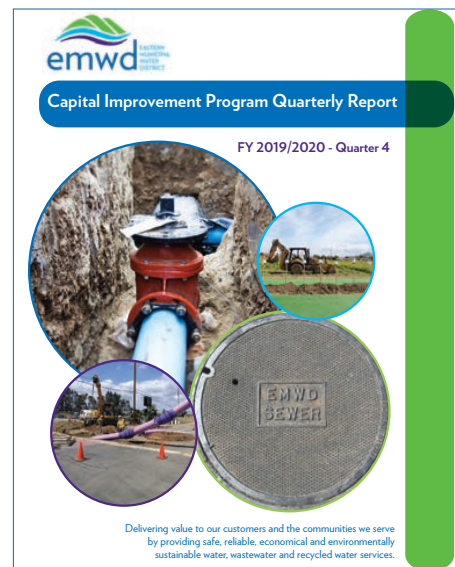
This strong financial standing has benefited ratepayers. A recent study by the University of California, Riverside (UCR) has shown monthly water and sewer costs accounted for approximately 1.5 percent of median household income in the District's service area. This is well below the United States Environmental Protection Agency's (EPA) affordability threshold of 4.5 percent for water and sewer services.

Other factors recently cited for the District's financial strength include its rate setting approach, including yearly nominal rate increases instead of large rate spikes after extended periods of no rate adjustments; strong financial reserves to meet extended periods of revenue uncertainty during economic downturns, extended droughts, or the current COVID-19 pandemic; and lastly, manageable capital needs with no planned borrowing for the next five years. This is possible due to the District's aggressive program in securing grant funding.

Other steps taken by the District to ensure a more sustainable financial future includes the aggressive pursuit of external funding opportunities; shared financial responsibility between the District and its employees, for current and post-employment benefits and commitment to funding policies regarding fully funding the Other Post-Employment Benefit (OPEB) and pension obligations over an appropriate period of time.

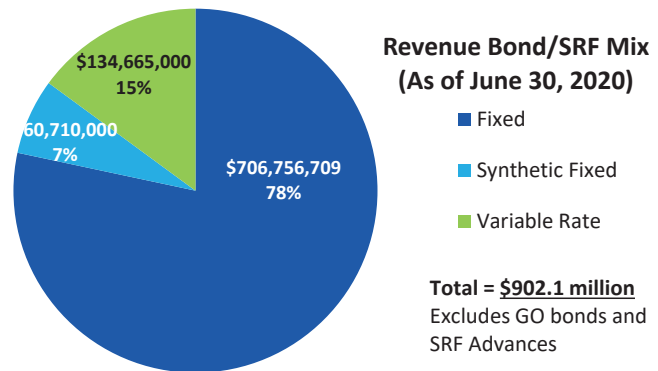
Accounting Systems

The Finance Department is responsible for providing the financial services for the District, including financial accounting and reporting, payroll, and accounts payable, custody and investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District's books and records are maintained on an enterprise basis, as it is the intent of the Board to manage the District's operations as a business, thus matching the revenues against the costs of providing the services. Revenues and expenses are recorded on the accrual basis in the period in which the revenue is earned and the expenses are incurred.



Debt Administration

The District actively manages its debt portfolio and seeks to minimize its total debt costs. This goal is achieved by issuing both fixed and variable rate debt to fund its capital projects. The District has primarily issued revenue bonds (Bonds) and has borrowed from state revolving fund (SRF) loans to fund its CIP. As of June 30, 2020, the District's total revenue bonds and SRF loans outstanding was \$902.1 million of which 78 percent were fixed interest rate, 15 percent were variable interest rate and 7 percent were synthetically fixed through Swap agreements with Wells Fargo Bank, for an overall weighted average cost of funds of 2.14 percent.



The District's parity revenue bond debt has been assigned AAA, Aa1, and AA+ ratings and the subordinate refunding revenue bonds have been assigned ratings of AA+, Aa2, and AA+ from Fitch Ratings, Moody's Investors Service, Inc. and S&P Global Rating's Services, respectively. More information about the District's long-term debt and other non-current liabilities is presented in Note 4 to the Financial Statements.

Reserve Policy

The District adopted a reserve policy, which states the purpose, source, and funding limits for each of its designated reserves within its four main funds: operating, construction, debt service, and trust. The reserves are essential for maintaining liquidity in the marketplace, which enables the District to access the lowest cost-of-capital borrowing opportunities.

Administrative Code and Investment Policy

In 2013, the Board of Directors adopted an Administrative Code, which incorporates various policies and administrative duties. The District previously adopted an Investment Policy, which was incorporated into the Administrative Code. The District invests its funds in instruments permitted by California Government Code Sections 53601, et seq., and in accordance with its Investment Policy. The investment objectives of the District are to first preserve capital, followed by maintaining liquidity, and finally, maximizing the rate of return without compromising the first two objectives.

Internal Controls

The District's management is responsible for establishing and maintaining a system of internal controls designed to safeguard the District's assets from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in accordance with GAAP. Management follows the concept of reasonable assurance in recognizing that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments. The most recent audits have not uncovered any weaknesses in internal control that would cause concern. However, recommendations for improvement are always welcome and are implemented where feasible.

Major Initiatives

The District is driven by standards to provide safe, reliable, economical, and environmentally friendly services. These standards and services include highly reliable water, wastewater service and recycled water service, protection of public and environmental health, superior customer service, sound planning and operational efficiency, fiscal responsibility and appropriate investment, exemplary employer and effective communication, advocacy and community partnerships.

Highly Reliable Water, Recycled Water and Wastewater Service

To provide a safe, reliable and cost-effective water supply portfolio that is sustainable and achieves an optimum balance of water resources including imported water, surface water, groundwater, wastewater treatment, reuse and resource recovery, the District identified and invests in the following initiatives:

Groundwater Reliability Plus Initiative

Current and future growth within the District's service area increase demands for sustainable local water supplies. The District is committed to a comprehensive and collaborative approach toward its local groundwater resources through its Board adopted Groundwater Reliability Plus Initiative to promote long-term water supply reliability. The District currently operates 14 active potable wells and 13 active desalter wells that provides 12 percent of its water supply portfolio. This number is anticipated to grow in the future through the Groundwater Reliability Plus Initiative, a comprehensive approach to groundwater management with the goal of continually improving the quality and quantity of water in the District's local groundwater basins. The initiative ensures that the District can meet the long-term needs of its service area through expanded groundwater services, including desalination, replenishment of aquifers and the protection of water quality through environmental health initiatives.



Santa Ana River Conservation and Conjunctive Use Program (SARCCUP) – Water Banking

The District is one of five member agencies of the Santa Ana Watershed Project Authority (SAWPA) that is participating in a first of its kind regional groundwater banking program known as the Santa Ana River Conservation and Conjunctive Use Program (SARCCUP). This multi-agency watershed wide program will bank imported water to enhance water supply reliability and increase available dry year supplies in the Santa Ana River Watershed. The program will also integrate water conservation measures, habitat enhancements and recreational use. It will develop dry year yield by banking wet year water with 180,000-acre feet capacity over a ten-year period. The District will implement the San Jacinto Basin component of the program by storing 19,500 plus acre feet of wet year water per ten-year period. The District will install a one-mile educational hiking trail and forty acres of open space in the form of a recharge basin in the Santa Ana River Watershed. The five participating agencies include the District, Inland Empire Utilities Agency (IEUA), Orange County Water District (OCWD), San Bernardino Valley Municipal Water District (SBVMWD) and Western Municipal Water District (WMWD).

In November 2019, the District broke ground on the Mountain Avenue West Groundwater Replenishment Facility located on the northeast corner of Mountain and Esplanade avenues in the City of San Jacinto. The Facility will comprise of two large basins that will allow imported water from Northern California to seep into the District's local groundwater aquifer where it will be available for use during dry years and will serve as the future home of the District's Water Banking project. The facility will help mitigate the impacts of future droughts by increasing local groundwater basin levels, increase water supply reliability for future years and help the District improve groundwater quality in the aquifer.

This \$22.9 million SARCCUP project is partly funded by a \$12.7 million Proposition 84 Integrated Regional Water Management Program (IRWMP) grant from SAWPA and is estimated to be completed in August 2022.

Perris II Reverse Osmosis Treatment Facility – Desalination

The Perris II Reverse Osmosis (RO) Treatment Facility Project is a multi-phase project that will produce potable water from the contaminated Perris South Water Groundwater Management Zone. The project consists of construction of RO treatment process facilities, four water supply wells, pipelines, and additional treatment trains at the RO treatment facilities. The Perris II Desalter will treat degraded groundwater from the West San Jacinto Basin so that the water can be used for potable purposes within the District’s service area. The facility will be constructed adjacent to the two existing desalters, the Menifee and Perris I Desalter. The Perris II Desalter, which will initially produce 3.6 million gallons per day, will be equipped to support expansion to a capacity of 5.4 million gallons per day, meeting the potable water demands of up to 12,000 homes in the Perris and Menifee service areas.



The District was successful in securing a \$22.5 million Proposition I Groundwater grant funding from the State Water Resources Board in July 2018 to partly fund this \$41.0 million project. A Local Resources Program (LRP) agreement from the Metropolitan Water District (MWD) was also secured to provide a subsidy of \$305 per acre foot up to 5,500-acre feet every year over twenty-five years. If the maximum amount of groundwater is recovered for beneficial use, MWD will subsidize \$41.9 million for the 137,500 acre-feet. The LRP program is an incentive program for MWD member agencies to produce water that would otherwise be supplied by MWD. The project, which started in December 2014, is anticipated to be completed in March 2021.

Perris North Basin Groundwater Project

In June 2020, the District was awarded a \$44.9 million Proposition 1 grant from the State Water Resources Control Board to fund 50 percent of the estimated \$89.9 million Perris North Basin Groundwater Contamination Prevention and Remediation Project. The program is a long-term solution to improve groundwater quality in the North Perris Groundwater Basin located in Moreno Valley and will have the additional benefit of providing safe drinking water for approximately 15,000 additional households annually. The program would make beneficial use of available local groundwater supplies, up to 6,700-acre feet annually, further reducing reliance on imported water supplies. Groundwater in Perris North Basin includes the area of March Airforce Base (MARB) which is served potable water by Western Municipal Water District (WMWD). The District continues to work with WMWD and the Department of Defense (DOD) on interagency agreements and other potential opportunities, such as the ability to partner with WMWD for a local, more sustainable water supply for MARB. This construction project is currently in the design phase.

Temecula Valley Regional Water Reclamation Facility Expansion

In June 2019, the District substantially completed construction of the 5 million gallon per day (MGD) wastewater treatment capacity expansion project at its Temecula Valley Regional Water Reclamation Facility (TVRWRF), located in the central commercial area of Temecula. The expansion project increased the total capacity of the wastewater treatment plant to 25 MGD. The increased capacity, which was needed to accommodate growth in the region, included the new primary, secondary, tertiary, solids handling and effluent pumping facilities and storage.

The District received \$95.3 million in funding from the State Water Resources Control Board to partly fund the \$120 million Recycled Water Optimization Project. The funding included a \$15 million Proposition 1 grant and an \$80.3 million State Revolving Fund Loan, with an estimated principal amount due of \$64.1 million at the end construction. The optimization project, which expanded the District’s recycled water portfolio, included the Temecula Valley Regional Water Reclamation Facility, with final work expected to be completed in December 2020.

Sound Planning and Appropriate Investment

To deliver the highest quality products and services in a cost-effective manner by leveraging work force, technology, and business resources and implementing industry leading processes and practices.

Energy Efficiency Programs

The District continues to actively pursue alternative sources of energy and electrical power supply to address capacity issues and cost of electrical power by investing in solar, digester gas, fuel cell technology and microturbines.

Solar power generation systems are installed at the Perris, Moreno Valley, Temecula, San Jacinto, and Sun City facilities. These facilities benefit from an average of 30 percent of its energy usage provided through the solar power generation systems that produce an average of 1,000 kW of power at each site. These solar systems are anticipated to save ratepayers over \$1.0 million over the life of the systems.

Digester gas driven fuel cells are installed at the District's Moreno Valley and Perris Valley regional water reclamation facilities. These fuel cells, which operate on renewable fuel, provide 20 to 40 percent of these facilities' energy requirements, produce zero emissions cutting greenhouse gases by more than 10,600 tons annually and save an estimated \$1.0 million annually on energy costs.

The District currently has nine 60 kW **microturbines** that provide additional power generation that save more than \$300,000 each year. The exhaust from these microturbines heats water necessary to power a 150-ton air conditioning unit.

Automated Metering Infrastructure

The District's Automated Meter Infrastructure (AMI) project, a multi-year project completed in May 2019, replaced approximately 158,500 water meters with automated (smart) meters. These smart meters improved customer service options and saves on labor costs while minimizing water loss. AMI technology provides a remote data link between the meters and the District for real time monitoring and allows hand free meter reading for more efficient water reads, eliminating the need to manually read meters each month, resulting in a reduction in mileage driven by District fleet vehicles by approximately 170,000 miles each year. The smart meters, which are used in conjunction with the District's existing AMI Tower Gateway and Meter Data Management System, provides daily and up to date customer water usage information and analysis through an online portal that enables customers to track their water usage in real time, projects their monthly bills and identifies potential leaks in their property. Continuous and early leak detection is a component of water conservation. Projected water savings from smart meters is 1,945-acre feet each year with an associated energy savings of 47.1 million kilowatt hours (kWh) per year achieved after five years with an associated 88.4 kWh per year.

Alternative Fuel Vehicle Fleet

As part of its effort to expand its clean energy fleet, reduce its carbon footprint and adapt to a changing regulatory environment for vehicle emissions, the District has expanded its clean energy fleet through the purchase of six new compressed natural gas (CNG) powered high definition (HD) vehicles which include 2 tandem axle dump trucks, 3 class 8 service trucks and 1-4,000 gallon tanker truck, for wastewater collections operations. These six new trucks are in addition to an already expanding list of alternative fuel vehicles. Other clean energy vehicles in the fleet include four plug-in hybrid vehicles, one battery electric vehicle and one hybrid vehicle. As existing vehicles reach the end of their service life, they will be replaced with clean energy vehicles. The District has a ten-port electric vehicle charging station and also uses public, accessible CNG charging stations.



Superior Customer and Community Service

The District is committed to consistently exceed customer expectations in all facets of its service through customer awareness, service, and technology.

Community Outreach

In April 2019, the District was presented with two Excellence in Public Information and Communications awards through the California Association of Public Information Officials (CAPIO). The District was recognized for its Water Tax Education and Healthy Sewers campaigns.



The District's Healthy Sewer Program is a public program that promotes the responsible disposal of prescription medication and fats, oils, and grease. By reducing contaminants in the wastewater collection system, the District can reduce treatment costs, help sustain a high-quality recycled water supply and ultimately protect future groundwater quality. It also received the EPIC Award from the California Association of Public Information Officials for its Patrick the Poo mascot video which was created to educate children about what not to put down the drain.

In addition to the CAPIO awards, the District received five awards from the Public Relations Society of America's Inland Empire Chapter for Outstanding Community Outreach. These award winning programs, which signify the highest standards of performance and outstanding public relations tactics and programs include the Water Bottle Fill Station Program, the Education Program, the Water Leaders Academy Program, the Healthy Sewers Program and the Employee Photo Contest Program.

Education

The District's award-winning Education Program is actively engaged in fostering and understanding of water and wastewater issues and promoting wise water use among students at all grade levels, from K to 12. Its extensive education program provides interested schools within the District's service area complimentary lesson plans, curriculum packets, materials and a host of other activities and programs. The District sponsors annual poster and write-off contests open to students in K-middle schools with different yearly themes including water conservation and being sewer smart. Other activities offered include field trips to District facilities which are open to school districts and private schools within the District's service area, these trips are popular and are fully booked in advance of the school year end. For high school students, the District partners with the Metropolitan Water District (MWD) by annually sponsoring teams to the Solar Cup competition. The competition is a solar-powered boat race where students design, build and race solar-powered boats allowing the use of alternative power and also allowing the students to understand the project-based learning and teamwork. Other District sponsored education programs include complimentary bird walks, education videos, paper and electronic books and student recognition events.

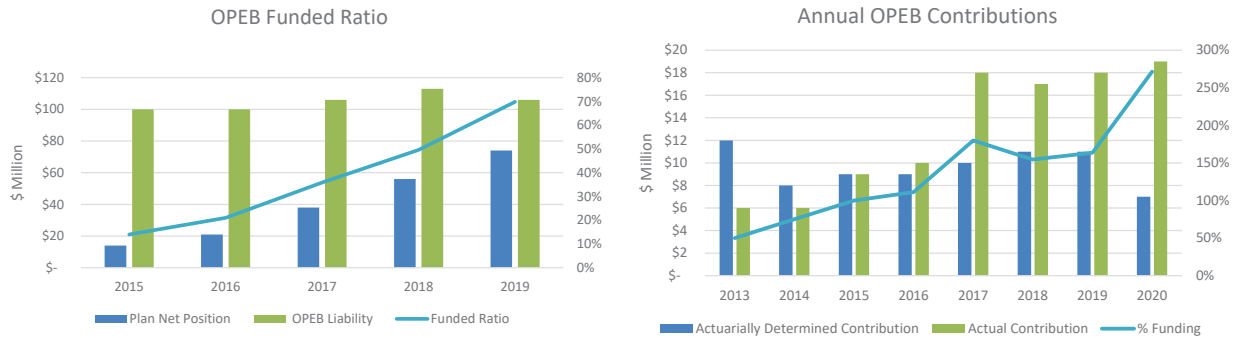
Fiscal Responsibility and Appropriate Investment

The District continues to focus its efforts in areas that will ensure financial stability and demonstrate responsible stewardship of public funds.

Other Post-Employment Benefits

The District established a funding policy to fund its retiree health program through the California Employers' Retiree Benefit Trust (CERBT) and started funding in fiscal year 2013 with a goal to achieve full funding by fiscal year 2034. The District began funding future costs in July 2012 and July 2013 with initial \$2.8 and \$5.7 million deposits to CERBT. In

fiscal year 2014, the District implemented a new tier of OPEB benefits for future hires that will dramatically improve the plan funding and viability over the long term. In addition, the District adopted funding policy principles that direct how the OPEB Trust will be funded over time, in accordance with sound funding principles. Commencing in fiscal year 2015, the District made its full Actuarially Determined Contribution (ADC) and intends to continue to do so until its OPEB obligations are fully funded. In fiscal years 2018, 2019 and 2020, the District's contribution to the Trust exceeded the ADC by \$6.5 million, \$7.6 million, and \$12.4 million, respectively. As of June 30, 2019, the District's OPEB Liability was 70 percent funded, this was substantially sooner than anticipated when the OPEB funding policy principles were adopted by the Board of Directors.



Response to COVID-19

The District has continued providing water, wastewater, and recycled waterservices throughout COVID-19. Staff, equipment, and infrastructure are in place to maintain all services, while also incorporating remote working and social distancing to protect the health and well-being of employees, customers, and the community.

The District continues to serve clean, safe, and reliable water to the community for drinking and hand washing. The District also continues to process approximately 55,000 water quality tests annually through highly skilled staff in a State certified laboratory to ensure high quality tap water.

The District understands the financial hardships that customers may experience due to COVID-19 and is committed to work in partnership with customers throughout the pandemic. The District offers several options to customers needing assistance, including flexible payment arrangements, due date adjustments, and late fee waivers. In addition, the District is not shutting off services due to non-payment during this time.



Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Eastern Municipal Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2019. This was the sixteenth consecutive year that the District has received this prestigious award. To be awarded a Certificate of Achievement, the District 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 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.

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance department. We wish to thank all departments for their assistance in providing the data necessary to prepare this report. We would also like to thank the Board of Directors for their unfailing support for maintaining the highest standards of professionalism in the management of the District's finances.

Respectfully submitted,



Paul D. Jones II, P.E.
General Manager



Laura M. Chavez-Nomura, CPA
Deputy General Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Eastern Municipal Water District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

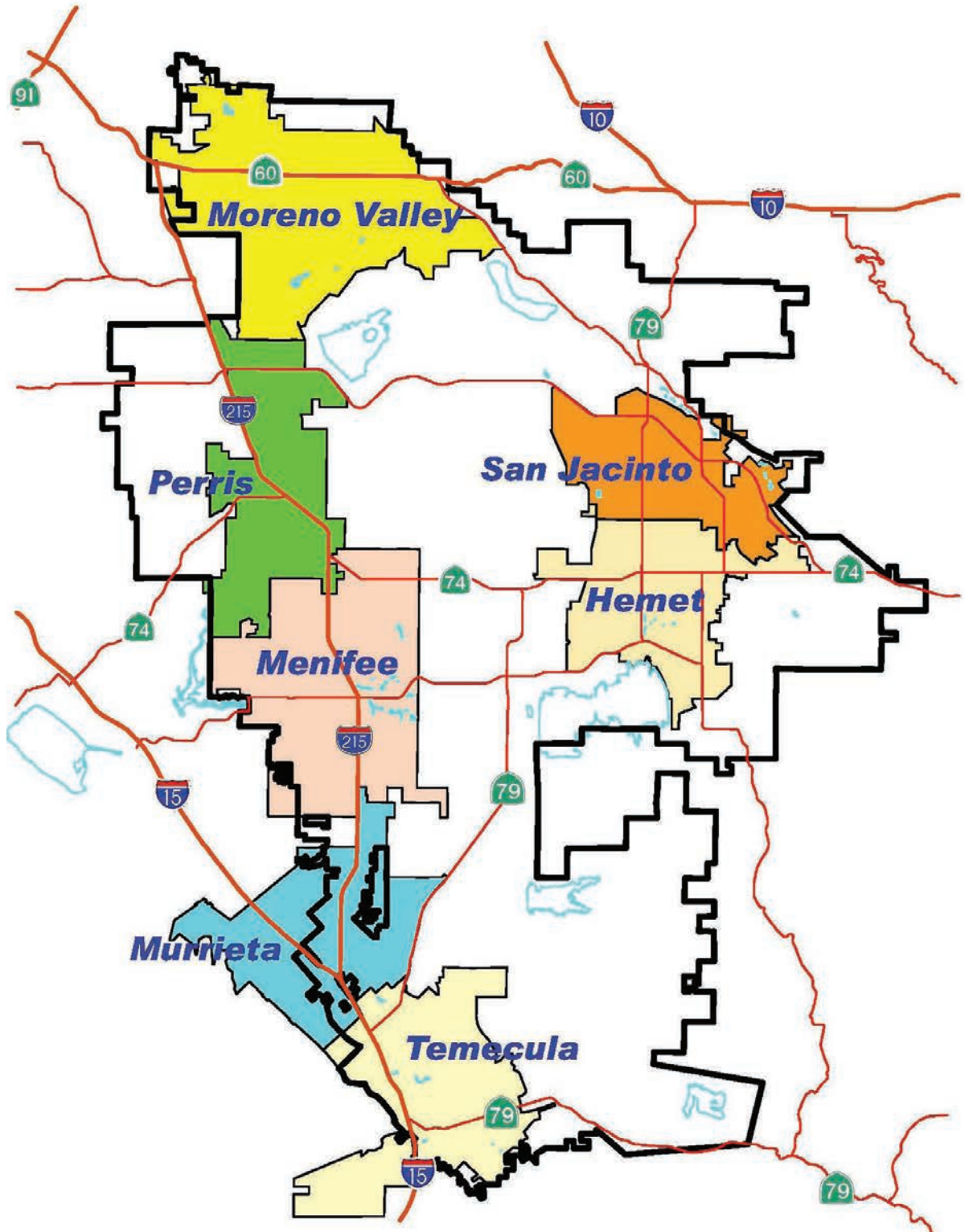
June 30, 2019

Christopher P. Morrill

Executive Director/CEO

EASTERN MUNICIPAL WATER DISTRICT

SERVICE AREA MAP AND INCORPORATED CITIES



EASTERN MUNICIPAL WATER DISTRICT

List of Elected & Appointed Officials June 30, 2020

BOARD OF DIRECTORS

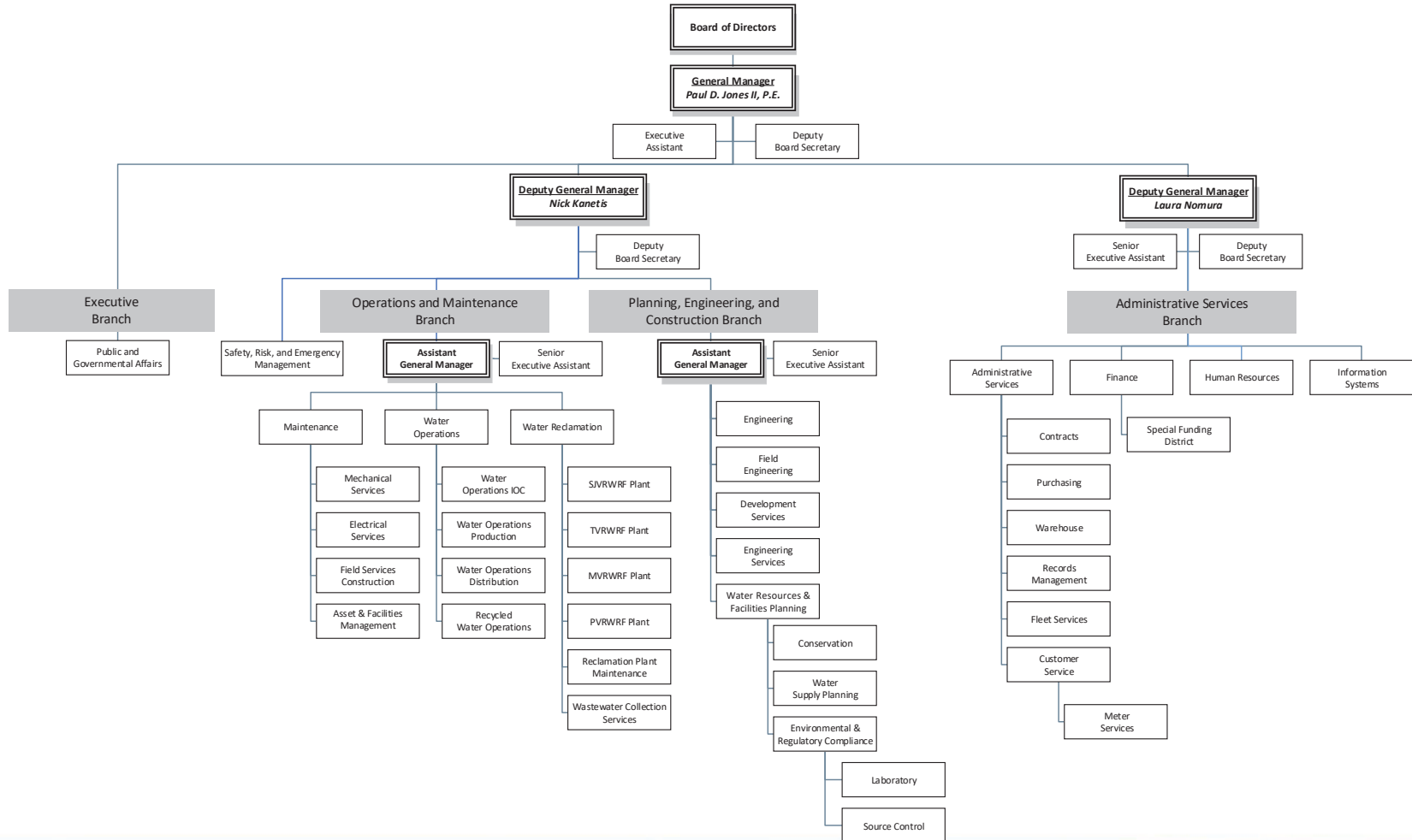
Position	Name	Elected	Current Term of Office
President	Ronald W. Sullivan	1/2003	2017- 2021
Vice President	Philip E. Paule	1/2007	2019- 2023
Director	Stephen J. Corona	1/2019	2019- 2023
Director	David J. Slawson	1/1995	2019- 2023
Director	Randy A. Record	1/2001	2017- 2021

EXECUTIVE MANAGEMENT

Position	Name
General Manager	Paul D. Jones II, P.E.
Deputy General Manager	Laura M. Nomura/CPA
Deputy General Manager	Nicolas Kanetis, P.E.
Assistant General Manager	Jeff D. Wall, P.E.
Assistant General Manager	Joe Mouawad, P.E.

EASTERN MUNICIPAL WATER DISTRICT

DISTRICT ORGANIZATIONAL CHART



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Financial Section



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Davis Farr LLP
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Independent Auditor's Report

Board of Directors
Eastern Municipal Water District
Perris, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Municipal Water District (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period, Schedule of Pension Plan Contributions, Schedule of Changes in Net OPEB Liability and Related Ratios for the Measurement Period, and the Schedule of OPEB Contributions* 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 District's basic financial statements. The *introductory section* and the *statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DavisFarrLLP

Irvine California
November 12, 2020

EASTERN MUNICIPAL WATER DISTRICT

Management's Discussion and Analysis

On behalf of the Eastern Municipal Water District (the "District"), we are pleased to offer the following narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020. We encourage all readers of the District's financial statements to consider the financial information presented in this section in conjunction with the accompanying financial statements, notes, analyses, and additional information furnished in our letter of transmittal at the opening of this report.

Financial Highlights

Total assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflow of resources at the close of fiscal year 2020 by \$1,741.7 million (net position). The District's net position, which increased \$104.9 million or 6.4 percent from the prior fiscal year, includes net investment in capital assets of \$1,407.1 million; restricted for debt service and construction, \$123.6 million and unrestricted, \$210.9 million.

Total revenue and capital contributions exceeded operating and non-operating expenses by \$104.9 million, the change in net position, for the fiscal year 2020. The change in net position increased by \$16.9 million from the prior fiscal year as a result of increases in developer contributions, \$24.8 million, and capital grant revenue, \$3.8 million.

Overview of the Financial Statements

The District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, and a statement of cash flows and notes to the basic financial statements. This report also includes other supplementary information in addition to the basic financial statements.

- *Statement of Net Position:* This statement presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- *Statement of Revenue, Expenses and Changes in Net Position:* This statement presents information on the District's current fiscal year's revenue and expense. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.
- *Statement of Cash Flows:* This statement provides relevant information about the District's cash receipts and cash payments segregated among operating, capital, and related financing, and investing activities.
- *Notes to the Basic Financial Statements:* These notes provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

EASTERN MUNICIPAL WATER DISTRICT

Management's Discussion and Analysis

Financial Analysis

Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's total activity.

Table 1, Net Position

	2020	2019	Increase (Decrease)	
			Amount	% Change
ASSETS				
Current assets	\$ 461,426,312	\$ 399,376,725	\$ 62,049,587	15.5%
Restricted assets	256,536,402	253,403,700	3,132,702	1.2%
Net capital assets	<u>2,371,050,394</u>	<u>2,305,967,041</u>	<u>65,083,353</u>	<u>2.8%</u>
Total Assets	<u>\$ 3,089,013,108</u>	<u>\$ 2,958,747,466</u>	<u>\$ 130,265,642</u>	<u>4.4%</u>
Total Deferred Outflows of Resources	<u>\$ 68,102,745</u>	<u>\$ 67,070,833</u>	<u>\$ 1,031,912</u>	<u>1.5%</u>
LIABILITIES				
Current liabilities	\$ 109,852,664	\$ 96,033,392	\$ 13,819,272	14.4%
Other liabilities	242,214,717	215,796,604	26,418,113	12.2%
Long-term debt outstanding	<u>1,046,753,999</u>	<u>1,069,929,877</u>	<u>(23,175,878)</u>	<u>-2.2%</u>
Total Liabilities	<u>\$ 1,398,821,380</u>	<u>\$ 1,381,759,873</u>	<u>\$ 17,061,507</u>	<u>1.2%</u>
Total Deferred Inflows of Resources	<u>\$ 16,623,322</u>	<u>\$ 7,292,047</u>	<u>\$ 9,331,275</u>	<u>128.0%</u>
NET POSITION				
Net investment in capital assets	\$ 1,407,118,856	\$ 1,389,284,069	\$ 17,834,787	1.3%
Restricted	123,619,605	92,561,916	31,057,689	33.6%
Unrestricted	<u>210,932,690</u>	<u>154,920,394</u>	<u>56,012,296</u>	<u>36.2%</u>
Total Net Position	<u>\$ 1,741,671,151</u>	<u>\$ 1,636,766,379</u>	<u>\$ 104,904,772</u>	<u>6.4%</u>
Ratio of Liabilities and Deferred Inflows to Assets and Deferred Outflows of Resources	<u>45%</u>	<u>46%</u>		

EASTERN MUNICIPAL WATER DISTRICT

Management's Discussion and Analysis

Comparing net position over time may serve as a useful indicator of a district's financial position. As shown on Table 1, the District's statement of net position includes assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,741.7 million (net position) representing an increase of \$104.9 million or 6.4 percent from fiscal year 2019.

The ratio of liabilities and deferred inflows of resources to assets and deferred outflows of resources decreased from 46 percent in fiscal year 2019 to 45 percent in fiscal year 2020. This ratio indicates the degree to which the District's assets are financed through borrowing and other obligations.

- Total assets increased \$130.3 million or 4.4 percent from fiscal year 2019 due to increases in cash and investments, \$61.4 million or 11.5 percent; net capital assets, \$65.1 million or 2.8 percent and water inventory, \$4.2 million or 34.9 percent.
- Total liabilities increased \$17.1 million or 1.2 percent primarily due to increases of \$40.6 million in state revolving fund construction advances and \$9.4 million in net pension liability, offset by decreases of \$25.0 million in net other postemployment benefits obligation and \$23.2 million in long term debt outstanding.
- Deferred outflow of resources increased \$1.0 million or 1.5 percent due to combined increases of \$4.7 million in fair value of swap contracts and deferred outflows for pension contributions, offset by a \$3.4 million decrease in deferred outflows for pension actuarial and deferred charges on debt refunding.
- Deferred inflow of resources increased by \$9.3 million as a result of a \$10.1 million increase in deferred inflow of other postemployment benefits, a reduction of liability, due to changes in actuarial assumptions and differences between expected and actuarial experience in the measurement of total other post-employment benefit liability. Assumption changes include retirement rates, withdrawal rates, disability rates and payroll growth which were updated to the most recent CalPERS table.

EASTERN MUNICIPAL WATER DISTRICT

Management's Discussion and Analysis

Table 2, Changes in Net Position

CHANGES IN NET POSITION FOR THE FISCAL YEARS ENDED JUNE 30, 2020 and 2019

	2020	2019	Increase (Decrease)	
			Amount	% Change
REVENUES				
Operating revenues	\$ 256,906,920	\$ 241,919,404	\$ 14,987,516	6.2%
Non-operating revenues	130,253,558	133,898,190	(3,644,632)	-2.7%
Total Revenues	387,160,478	375,817,594	11,342,884	3.0%
EXPENSES				
Operating expenses	321,449,399	302,687,296	18,762,103	6.2%
Non-operating expenses	45,351,484	41,846,404	3,505,080	8.4%
Total Expenses	366,800,883	344,533,700	22,267,183	6.5%
Increase (Decrease) in				
Net Position before capital contribution	20,359,595	31,283,894	(10,924,299)	-34.9%
Capital contributions	84,545,177	56,664,831	27,880,346	49.2%
Change in Net Position	104,904,772	87,948,725	16,956,047	19.3%
Net Position - Beginning of Year	1,636,766,379	1,548,817,654	87,948,725	5.7%
Net Position - End of Year	\$ 1,741,671,151	\$ 1,636,766,379	\$ 104,904,772	6.4%

EASTERN MUNICIPAL WATER DISTRICT

Management's Discussion and Analysis

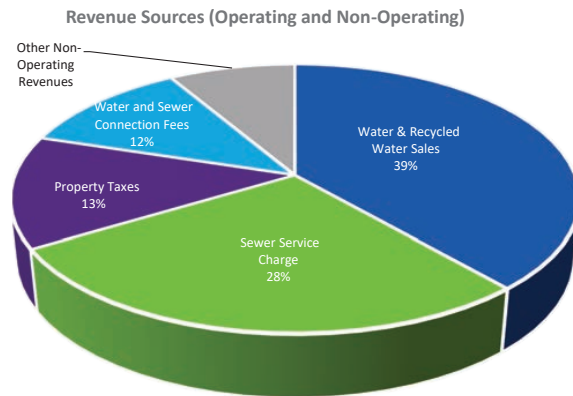
Changes in Financial Performance of the District

The District's statement of revenue, expenses, and changes in net position reports the results of its operations for the fiscal year ended June 30, 2020. A summary of the changes in net position for the fiscal years ended June 30, 2020 and June 30, 2019 are reported on Table 2 of the previous page.

Revenues

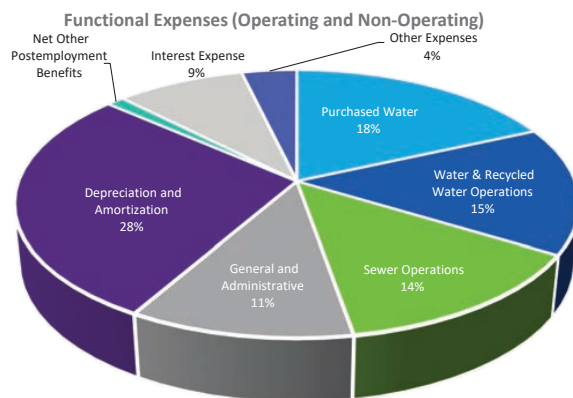
The District's operating revenues include water sales, sewer service charges and recycled water sales. Operating revenues, which increased \$15.0 million or 6.2 percent in fiscal year 2020, reflects an \$8.5 million increase in water sales combined with increases of \$6.5 million in sewer service charges and recycled water sales. The \$8.5 million increase in water sales is primarily due to higher domestic water sales and rate increases approved by the Board effective January 1, 2020. Sewer service charges increased by \$5.5 million due to a 3.8 percent rate increase and annual growth in sewer connections. Recycled water sales increased by \$1.0 million due to higher demand for recycled water, resulting from an increase in the recycled retrofit program, and recycled water rate increase effective January 1, 2020.

Non-operating revenues, which include property taxes, water and sewer connection fees and other revenues, were \$3.6 million or 2.7 percent less in fiscal year 2020. Water and sewer connections fees decreased \$9.5 million while property taxes, operating grant revenue and other revenue increased \$8.1 million. The lower water and sewer connection fee revenues are due to a 17 percent decrease in EDU and EMS connections in fiscal year 2020. Property tax revenue was \$3.3 million or 6.7 percent higher in fiscal year 2020 primarily due to increases in the general tax levy resulting from continued growth in median home prices and commercial-industrial properties within the District's service area. Operating grant revenue increased by \$2.4 million from the prior fiscal year due to the recognition of revenue for expenses related to conservation and design phase or preconstruction phase of District projects funded by five new grant funding sources.



Expenses

The District's operating expenses include the cost of purchased water, water service operating cost, sewer service operating cost, recycled water operating cost, general and administrative cost, depreciation cost and other employment benefit cost. Total operating expenses were \$18.8 million higher compared to fiscal year 2019 as a result of increases in purchased water cost, water and sewer operational costs and depreciation expense. The Purchased water cost increase of \$6.6 million or 10.8 percent is partly due to a 2 percent change in the source of water supply from local groundwater production to imported water purchase from MWD as part of the District's Cyclic Storage Agreement with MWD to purchase about 4,500 acre feet of treated water during fiscal year 2020 which will result in future cost savings. Sewer operating cost increased \$7.0 million or 16.4 percent primarily due to increases in direct labor cost and electric expenses. Fiscal year 2020 is the first year that solar credits were not available to offset electric costs due to full solar credits or buyout being received and recognized in fiscal year 2019.



Non-operating expenses, which include the loss on disposal of capital assets, interest expense on debt obligations and other expenses, were \$3.5 million or 8.4 percent higher in fiscal year 2020. This change reflects combined increases

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of \$4.9 million in loss on disposal of capital assets, research and development costs and interest expense, offset by a \$1.5 million increase in other expenses. Depreciation expense increased \$5.5 million or 5.6 percent in fiscal year 2020 due to the net addition of \$122.9 million of depreciable capital assets.

Capital Contributions

Capital contributions were \$27.9 million higher in fiscal year 2020, reflecting increases in developer contributions of \$24.8 million and capital grants, \$3.8 million. The \$24.8 million increase in developer contributions is primarily due to large capital projects completed during the fiscal year, including the Perris Desalination Water Brackish Well 94, Conestoga Recycled Water Infrastructure Pipeline, French Valley Airport Lift Station, several water and sewer facility projects, including those located in the Prologis Park in Moreno Valley.

Capital Assets

The District reported an increase of \$65.1 million in net capital assets in fiscal year 2020. A comparison of changes in capital assets is provided in Table 3 below.

Table 3, Capital Assets

**Capital Assets
For the Fiscal Years Ended June 30, 2020 and 2019**

	2020	2019	Increase (Decrease)	
			Amount	% Change
Land	\$ 66,356,156	\$ 64,866,802	\$ 1,489,354	2.3%
Tunnel Water Seepage Agreement	1,750,900	1,750,900	-	0.0%
Water capacity rights	32,430,476	30,074,350	2,356,126	7.8%
Water plant, lines and equipment	1,381,704,935	1,289,906,207	91,798,728	7.1%
Sewer plant, lines and equipment	2,074,895,524	2,011,894,372	63,001,152	3.1%
Equipment and general facilities	91,459,921	125,749,213	(34,289,292)	-27.3%
Construction in progress	165,821,485	130,468,086	35,353,399	27.1%
Total capital assets	3,814,419,397	3,654,709,930	159,709,467	4.4%
Less accumulated depreciation	(1,443,369,003)	(1,348,742,889)	(94,626,114)	7.0%
Net capital assets	\$ 2,371,050,394	\$ 2,305,967,041	\$ 65,083,353	2.8%

The \$159.7 million increase in capital assets, before accumulated depreciation, include increases in water and sewer plant, lines, and equipment of \$154.8 million and construction in progress, \$35.4 million, offset by a decrease of \$34.3 million in equipment and general facilities. Included in the increases in plant, lines and equipment are \$35.9 million transfers from the equipment and general facilities line due to capital asset reclassifications resulting from the District's capitalization policy implemented in fiscal year 2020.

Significant additions to the water and sewer plant, lines and equipment include the substantial completion of the Brackish Water Wells 94, 95 and 96 project, \$12.7 million; the Temecula Valley RWRF 23 MGD Expansion project, \$10.1 million; and the Solar Renewable Energy initiative project, \$9.5 million.

The Brackish Water Wells 94, 95 & 96 project includes the well drilling and equipping for the brackish desalter feed. These wells are in the community of Nuevo, an unincorporated area of Riverside County. The wells will provide brackish groundwater to support the District's desalination facilities. This project, which was substantially completed on July 31, 2019, is estimated to be completed on September 30, 2020.

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The Temecula Valley RWRf 23 MGD Expansion project will provide 5 MGD additional wastewater treatment capacity by constructing Plant 3 and modifications of existing facilities to increase the treatment capacity to 23 MGD. The Plant 3 facilities include new primary, secondary, tertiary, solids handling and effluent pumping facilities and storage. This project, which was substantially completed on June 30, 2019, is estimated to be completed on August 31, 2020.

The Solar Renewable Energy Initiative Phase III Site Preparation Construction project comprises construction of site grading and yard piping, including earthwork for the solar panel area graded pads, import and export of soil material, drainage features such as culverts, storm drainpipes, catch basins, concrete swales and grouted riprap, fine grading and access roadways, pipeline removal, abandonment and relocations, concrete headworks and temporary controls and restoration. This phase of the program, which was substantially completed on June 30, 2020, is estimated to be completed on September 30, 2020.

Other significant additions to capital assets include the Potable Water Well 38 project, \$7.4 million, and the Phase 1 of the Pump Electrification Project, \$4.7 million.

The Potable Water Well 38 project is located at 1930 East Mountain Avenue, between Esplanade Avenue and Hemet Street, adjacent to the Meridian Channel in the City of San Jacinto. Well 38, which replaced the collapsed Well 28 on the existing site, will produce 2,000 gallons per minute of potable water and will restore critical local water supply to the surrounding area and communities. The project consists of the abandonment and destruction of Well 28 and the construction of the new replacement Well 38 and related appurtenances. The scope of the project included re-drilling, development, testing, site work, well building, mechanical and electrical equipping. The project was substantially complete at the end of fiscal year 2020, with final completion anticipated by November 30, 2020.

The Pump Electrification Phase I project converted the existing natural gas engine pump drives to electric motor drives at three existing booster sites, Heacock, Pettit and Oleander, located in the City of Moreno Valley. The scope of work included engine replacement with premium efficient electric motors, new motor control centers, variable frequency drives, a new standby generator at Heacock and Pettit, salvage, demolition, replacement of check valves and flow meters and related electrical and appurtenant work. The project provided safety, improved reliability, standardization of equipment, favorable cost competition for capital equipment, reduced operations, and maintenance costs, reduced GHG emissions, reduced air quality restrictions and operational flexibility. This project was substantially complete at the end of fiscal year 2020, with final work to be completed by September 30, 2020.

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During the year, additions to construction in progress totaled approximately \$122.2 million. Some of the major projects currently underway and where expenditures in the fiscal year 2020 exceeded \$2.0 million include:

	Millions
• Perris II Desalter (5.4 MGD)	\$ 26.1
• Seventy-nine water and sewer projects between \$100,000 - \$500,000	16.9
• Seven water and sewer projects between \$1,000,000 - \$2,000,000	10.2
• Thirteen water and sewer projects between \$500,000 - \$1,000,000	8.9
• Mountain Avenue West Replenishment Basin	8.2
• Temecula Valley Recycled Water Pipeline	8.1
• Solar Phase 3-Grading	7.7
• MV/SJV/TV RWRf's Blower Electrification	7.3
• Remaining water and sewer projects with expenses less than \$100,000	7.0
• Customer Information and Billing System Replacement Project	6.1
• Temecula Valley RWRf 23 MGD Expansion	4.2
• Pala 24" Force Main	2.7
• Reach 4 Booster Station Pump Upgrade-Recycled Water	2.5
• PVRWRf Biofilter Media Conversion	2.2
• OMC Laboratory Modification Project	2.1
• MVRWRf TEPS MCC Replacement	2.0
	\$ 122.2

The District had \$201.9 million in construction contract commitments as of June 30, 2020 (additional information can be found in Note 10 of the Basic Financial Statements).

Long-Term Liabilities

Long-term liabilities consist of debt and other liabilities. Long-term debt includes advances for construction, notes and assessments, revenue bonds, general obligation (GO) bonds and unamortized deferred amounts for premiums/discounts relating to debt issuances. Other long-term liabilities include state revolving fund (SRF) loans, construction advances, advances from developers, other accrued expenses, compensated absences, net other postemployment benefits obligation and the fair value of swap contracts.

The District had a total of \$1,288.9 million of outstanding debt and other noncurrent liabilities at June 30, 2020, an increase of \$3.2 million or less than 1.0 percent from the prior fiscal year. This change reflects an increase of \$40.6 million in state revolving fund construction advances, for the Recycled Water Optimization Project, offset by decreases of \$25.0 million in net other post-employment benefits obligations and \$17.9 million in revenue bonds. The \$25.0 million decrease in net other post-employment benefits is due to the District's \$19.2 million OPEB contribution more than the actuarially determined contribution, and increase in net investment income, \$4.2 million. The \$17.9 million decrease in revenue bonds is a result of scheduled debt service payments made during the fiscal year. There were no new debt issuances in fiscal year 2020 other than the refunding of the 2015A, 2017A and 2017B revenue bonds.

The District's parity Revenue Bond debt has been assigned an AAA, Aa1 and AA+ rating and the subordinate Refunding Revenue Bonds have been assigned ratings of AA+, Aa2, and AA+ from Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Rating Services, respectively. More detailed information about the District's long-term debt and other noncurrent liabilities is presented in Note 4 to the financial statements.

EASTERN MUNICIPAL WATER DISTRICT

Management's Discussion and Analysis

Addressing the Covid-19 Pandemic

In February 2020, Senate Bill 998, Discontinuation of Residential Water Service for Urban and Community Water Systems, went into effect. The bill requires public water systems, that supply water to more than 3,000 customers, to change how customers receive service shut-off notifications. For other water systems, with over 200 service connections, this bill went into effect in April 1, 2020. The requirements of the bill include written discontinuation policies available in different languages spoken by 10 percent of the customers within the water service area. Water systems may not discontinue residential water service due until payments are delinquent for 60 days.

In April 2020, the Governor signed an executive order restricting water shutoffs to homes and small businesses while the state responds to the Covid-19 pandemic. Although the order protects water customers, who may not be able to pay their water service, from shutoffs, it does not eliminate their obligation to pay their water bill.

The District is following both SB998 and the Governor's executive order and its customer service staff continue to assist with customer payment options and late fees adjustments.



To address the potential economic and financial impact of Covid-19, the District completed a financial impact study and revised its operating budget for fiscal year 2021, approved by the Board in June 2020. Changes to the budget included a 3.8 percent decrease in water sales, 4 percent decrease in property taxes, 13 percent decrease in connection fees and a 1.8 percent decrease in operating expenses. In June 2020, it was also projected that unpaid utility customer bills, 61 days or older, will increase from \$350 thousand to \$1.5 million due to both SB998 and Covid-19. This financial projection demonstrates the District's strong financial position and maintenance of its AAA and AA+ bond ratings. It continues to evaluate its monthly financial position and will provide an update to the Board in November 2020. Preliminary fiscal year 2021 financial results already demonstrates the District exceeding its budgeted revenue as reflected in water sales which are 6.7 percent more than budget, connection fee revenues which are \$5.0 million over budget, operating expenses which are under budget and customer account write-offs which are less than the projected \$1.0 million for the year.

Contacting the District's Financial Management

This financial report is designed to provide Eastern Municipal Water District's elected officials, citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions regarding any of the information provided in this report or need additional financial information, please contact the District's Finance Department at 2270 Trumble Road, P.O. Box 8300, Perris, CA 92572-8300. General information relating to the District can be found on its website <http://www.emwd.org>.

EASTERN MUNICIPAL WATER DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2020 (with prior year data for comparison purposes only)

	June 30	
	2020	2019
Assets:		
Current assets:		
Cash and investments	\$ 354,748,487	\$ 296,641,268
Utility accounts receivable, net of allowance	32,885,897	30,007,094
Property taxes receivable	12,399,108	12,643,000
Accrued interest receivable	1,576,573	2,296,565
Other receivables	6,059,903	8,863,408
Prepaid expenses	3,569,582	3,751,287
Materials and supplies inventory	3,969,621	4,130,201
Water inventory	16,179,802	11,993,048
Grants receivable	30,037,339	29,050,854
Total current assets	461,426,312	399,376,725
Noncurrent assets:		
Restricted assets:		
Debt service covenants cash and investments	98,974,727	87,228,218
Property taxes receivable	1,632,017	1,590,251
Soboba reimbursement receivable	12,998,778	12,998,778
Construction cash and investments	140,936,517	149,422,063
Notes receivable	1,994,363	2,164,390
Total restricted assets	256,536,402	253,403,700
Capital assets:		
Land	66,356,156	64,866,802
Tunnel water seepage agreement	1,750,900	1,750,900
Structures, improvements and water rights	3,489,030,935	3,331,874,929
Equipment and general facilities	91,459,921	125,749,213
Construction in progress	165,821,485	130,468,086
Total capital assets	3,814,419,397	3,654,709,930
Less accumulated depreciation	(1,443,369,003)	(1,348,742,889)
Total net capital assets	2,371,050,394	2,305,967,041
Total noncurrent assets	2,627,586,796	2,559,370,741
Total assets	3,089,013,108	2,958,747,466
Deferred outflows of resources:		
Accumulated increase in fair value of swap contracts	5,161,004	2,585,392
Deferred outflows - pension contributions	14,572,035	12,446,689
Deferred outflows - OPEB contributions	19,006,063	19,240,938
Deferred outflows - actuarial	14,796,006	16,989,362
Deferred charges on debt refundings	14,567,637	15,808,452
Total deferred outflow of resources	68,102,745	67,070,833

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2020

(with prior year data for comparison purposes only)

	JUNE 30	
	2020	2019
Liabilities:		
Current liabilities:		
Accounts payable	\$ 40,583,051	\$ 33,294,227
Accrued salaries and benefits	2,586,148	1,671,492
Customer deposits	11,298,012	10,532,988
Compensated absences	9,009,510	8,725,167
Accrued interest payable	13,446,000	13,480,570
Other payables	7,082,587	5,874,805
Advances for construction, notes and assessments	3,270,700	3,239,761
Revenue bonds	18,323,024	16,417,008
General obligation bonds	1,205,393	1,155,393
Advances from developers	1,326,563	631,096
Other accrued expenses payable	1,721,676	1,010,885
Total Current Liabilities	109,852,664	96,033,392
Noncurrent liabilities:		
Compensated absences	3,914,103	3,285,203
Advances for construction, notes and assessments	71,691,010	77,694,955
Revenue bonds	922,884,935	940,838,430
General obligation bonds	29,378,937	30,584,330
State revolving fund construction advances	47,052,375	6,443,478
Advances from developers	26,397,867	23,605,198
Other accrued expenses payable	3,083,012	5,700,487
Net other postemployment benefits obligation	31,836,264	56,851,211
Net pension liability	142,220,668	132,789,256
Fair value of swap contracts	10,509,545	7,933,933
Total Noncurrent liabilities	1,288,968,716	1,285,726,481
Total liabilities	1,398,821,380	1,381,759,873
Deferred inflows of resources:		
Deferred inflows - actuarial	5,281,954	6,076,509
Deferred inflows - other postemployment benefits	11,341,368	1,215,538
Total deferred inflows of resources	16,623,322	7,292,047
Net position:		
Net investment in capital assets	1,407,118,856	1,389,284,069
Restricted for debt service covenants	94,665,692	86,400,881
Restricted for construction	28,953,913	6,161,035
Unrestricted	210,932,690	154,920,394
Total Net Position	\$ 1,741,671,151	\$ 1,636,766,379

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE FISCAL YEAR ENDED JUNE 30, 2020

(with prior year data for comparison purposes only)

	June 30	
	2020	2019
Operating revenues:		
Water sales - domestic	\$ 139,470,921	\$ 127,831,377
Water sales - irrigation	1,832,130	5,015,795
Sewer service charge	107,541,964	102,037,610
Recycled water sales	8,061,905	7,034,622
Total operating revenues	256,906,920	241,919,404
Operating expenses:		
Purchased water	67,025,558	60,469,414
Water operations	49,180,247	46,398,474
Sewer operations	49,780,561	42,748,806
Recycled water operations	7,371,736	6,682,894
General and administrative	40,521,610	41,420,672
Depreciation and amortization	103,217,866	97,743,963
Net other postemployment benefits	4,351,821	7,223,073
Total operating expenses	321,449,399	302,687,296
Operating income (loss)	(64,542,479)	(60,767,892)
Nonoperating revenues (expenses):		
Property taxes - general levy	41,014,090	38,204,912
Property taxes - general bond levy	5,408,351	4,883,352
Availability (standby) assessments	5,779,756	5,828,077
Water and sewer connection fees	45,186,191	54,665,900
Interest revenue	10,506,376	11,897,412
Net increase (decrease) in fair value of investments	3,110,836	4,026,589
Grant revenues	2,715,243	272,250
Other revenues	16,532,715	14,119,698
Gain (loss) on disposal of capital assets	(3,231,192)	(2,212,310)
Interest expense	(31,761,424)	(30,303,310)
General obligation fund service fees	(30,864)	(30,864)
Research and development costs	(5,097,315)	(2,617,459)
Other expenses	(5,230,689)	(6,682,461)
Total nonoperating revenues (expenses)	84,902,074	92,051,786
Income (loss) before contributions	20,359,595	31,283,894
Capital contributions:		
Developer contributions	52,141,182	27,304,942
Capital grants	31,479,351	27,694,361
Other capital contributions	924,644	1,665,528
Total capital contributions	84,545,177	56,664,831
Change in net position	104,904,772	87,948,725
Total net position - Beginning of year	1,636,766,379	1,548,817,654
Total net position - End of Year	\$ 1,741,671,151	\$ 1,636,766,379

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT

STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 2020 (with prior year data for comparative purposes only)

	June 30	
	2020	2019
Cash flows from operating activities:		
Receipts from customers	\$ 259,876,949	\$ 244,631,449
Receipts from availability (standby) assessments	5,878,214	5,713,451
Other receipts	16,532,715	13,663,884
Payments for water	(71,299,086)	(64,387,590)
Payments to employee for services	(96,020,082)	(98,069,792)
Payments to suppliers for goods and services	(46,670,643)	(49,402,933)
Payments for energy and utilities	(17,131,381)	(11,494,313)
Net cash (used for) provided by operating	51,166,686	40,654,156
Cash flows from noncapital financing activities:		
Proceeds from property taxes, general levy	41,159,524	38,020,752
Proceeds from operating grants	3,227,277	244,680
Net cash (used for) provided by noncapital	44,386,801	38,265,432
Cash flows from capital and related financing activities:		
Acquisitions and construction of capital assets	(119,714,157)	(105,098,634)
Proceeds from sale of capital assets	322,928	306,042
Proceeds from long-term debt issuance	155,550,405	195,720,000
Proceeds from SRF construction advances	40,608,897	119,932
Repayment of notes, bonds and certificates of participation	(173,893,006)	(213,095,782)
Interest paid	(35,419,320)	(33,993,020)
Proceeds from property taxes, GO bond levy	5,366,585	4,870,213
Proceeds from water and sewer connection fees	45,186,191	54,665,900
Proceeds from developer advances	10,832,464	8,577,843
Repayments of developer advances	(7,344,328)	(6,238,839)
Proceeds from capital grants	29,980,832	1,114,676
Net cash (used for) capital and related financing activities	(48,522,509)	(93,051,669)
Cash flows from investing activities:		
Purchases of investments	(267,975,932)	(198,226,368)
Proceeds from sales and maturities of investments	277,598,441	154,346,616
Proceeds from earnings on investments	11,226,368	11,854,299
Net cash (used for) provided by investing activities	20,848,877	(32,025,453)
Total (decrease) increase in cash and cash equivalents	67,879,855	(46,157,534)
Cash and cash equivalents at beginning of year	197,916,773	244,074,307
Cash and cash equivalents at end of year	\$ 265,796,628	\$ 197,916,773

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT

STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 2020 (with prior year data for comparison purposes only)

	June 30	
	2020	2019
Reconciliation of loss from operations to net cash (used for) provided by operating activities:		
Loss from operations	\$ (64,542,479)	\$ (60,767,892)
Adjustments to reconcile loss from operations to net cash provided by (used for) operating activities:		
Depreciation and amortization expense	103,217,866	97,743,963
Other revenues	12,909,111	11,857,569
(Increase) decrease in utility accounts receivable	(2,878,803)	1,747,667
(Increase) decrease in other receivables	2,901,963	(2,474,260)
(Increase) decrease in prepaid expenses	181,705	(262,619)
(Increase) decrease in materials and supplies inventory	160,580	1,702,687
(Increase) decrease in water inventory	(4,186,754)	(3,833,079)
(Increase) decrease in notes receivable	170,027	(162,226)
Increase (decrease) in accounts payable	7,288,824	637,963
Increase (decrease) in accrued expenses	215,754	1,161,588
Increase (decrease) in customer deposits	765,024	507,254
Increase (decrease) in compensated absences	913,243	(87,938)
Increase (decrease) in net other postemployment benefits obligation	(25,014,947)	(11,067,224)
Increase (decrease) in net pension liability	9,431,412	186,232
Increase (decrease) in deferred inflows	9,331,275	1,084,107
(Increase) decrease in deferred outflows	302,885	2,680,364
Net cash (used for) provided by operating activities	\$ 51,166,686	\$ 40,654,156
Reconciliation of cash and cash equivalent to statement of net position:		
Current cash and investments	\$ 354,748,487	\$ 296,641,268
Restricted cash and investments:		
Debt service/covenants	98,974,727	87,228,218
Construction	140,936,517	149,422,063
Total cash and investments	594,659,731	533,291,549
Less investments	328,863,103	335,374,776
Cash and cash equivalents	\$ 265,796,628	\$ 197,916,773
Noncash capital, financing, and investing activities:		
Capital asset contributions from developers	\$ 52,141,182	\$ 27,304,942
Net increase (decrease) in fair value of investments	3,110,836	4,026,589
Amortization of bond premiums, discounts, and loss on debt refundings	(3,592,462)	(3,426,209)

The accompanying notes are an integral part of these financial statements.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 1 – Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Eastern Municipal Water District (District) was formed in October 1950, under the California Water Code for the primary purpose of importing Colorado River Water to augment local water supplies. In 1962, the District began providing wastewater treatment services to customers within its service area and, as a consequence, has become actively involved in the production of recycled water (i.e., wastewater which has been treated to a level acceptable for nondomestic purposes) and has been recognized as an industry leader in the management of ground water basins and the related beneficial uses of recycled water. The District's water and wastewater customers include retail customers (e.g., residential, commercial and agricultural) located in both incorporated and unincorporated areas within the District's service area, as well as wholesale customers (e.g., municipalities and local water Districts) located within its service area.

The District formed the Eastern Municipal Water District Facilities Corporation (Facilities Corporation) on April 10, 1979, under the Non-Profit Public Benefit Corporation Law, State of California, for the purpose of rendering financing assistance to the District by acquiring, constructing and operating or providing for the operation of water and wastewater facilities, including water and wastewater transmission pipelines, treatment plants and related facilities for the use, benefit and enjoyment of the public within the District's boundaries. The Facilities Corporation is a blended component unit of the District.

The District formed the Eastern Municipal Water District Financing Authority (Financing Authority) on April 1, 2015, under the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 of the California Government Code. The Financing Authority was formed to enable the District to finance, refinance, or provide interim financing for the acquisition, construction, and operation of water supplies, water and wastewater infrastructure, water rights, public facilities, other public capital improvements, or other projects whenever there is significant public benefits. The Financing Authority is a blended component unit of the District.

The District's reporting entity includes the General District, the related improvement Districts located within the service area of the General District, the Facilities Corporation, and the Financing Authority. Although the District, the Facilities Corporation and the Financing Authority are legally separate entities, the District's Board of Directors also serve as the Facilities Corporation and the Financing Authority's Board of Directors, and therefore, the accompanying financial statements include the accounts and records of the Facilities Corporation and the Financing Authority as required by generally accepted accounting principles using the blending method. There are no separate financial statements for the Facilities Corporation and the Financing Authorities, they merely serve as the legal entity used by the District to issue long-term debt. Accordingly, the Facilities Corporation and the Financing Authority have no separate financial activity to be reported as separate funds of the District.

Basis of Accounting and Measurement Focus

The District accounts for its operations on a fund basis. In governmental accounting, a fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Because the activities of the District receive significant support from fees and charges, it uses a proprietary (enterprise) fund. Enterprise fund accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services.

The District uses the economic resources measurement focus and the accrual basis of accounting. Measurement focus determines what is measured in a set of financial statements and under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Cash and Investments

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Classification of Revenues and Expenses

An enterprise fund distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for domestic, agricultural and irrigation, and recycled water sales, and sewer service charges. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation of capital assets.

Non-operating revenues and expenses are those not directly associated with the normal business of supplying water and wastewater treatment services. Non-operating revenues mainly consist of property taxes, availability (standby assessments), investment income, connection fees and miscellaneous income. Capital contributions consist of facilities built by developers and turned over to the District to operate and maintain and federal, state and private grants used to fund capital assets. Non-operating expenses mainly consist of debt service interest and debt-related fees.

Capital Assets

Both purchased capital assets and self-constructed capital assets are recorded at acquisition cost. The cost of self-constructed assets includes direct labor, materials, contracted services and overhead. Contributed capital assets are recorded at acquisition value at the time they are received. These assets consist primarily of distribution lines and connections constructed and donated by developers. The Districts capitalization threshold starts at \$5,000 with a useful life 3 years or more, for all purchased or constructed assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Transmission and distribution	3-100
Pumping Plants	5-67
Source of Supply	3-40
Reclamation facilities	3-50
General Plant	3-67

Allowance for Doubtful Accounts

An allowance for doubtful accounts has been established for utility accounts receivables that are 60 or more days delinquent at year-end. This allowance is netted against the receivable on the Statement of Net Position and amounts to \$1,427,802 at June 30, 2020.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Inventories

Material and supplies inventory consist primarily of materials used in the construction and maintenance of utility plant and is valued at weighted average cost. Water inventory consists of native groundwater and purchased water holdings in the Hemet-San Jacinto Basin. It is valued based upon purchase cost and weighted average cost of consumption.

Restricted Assets

Amounts shown as restricted assets have been restricted by bond indenture, law, or contractual obligations to be used for specified purposes, such as servicing bonded debt and construction of capital assets.

Restricted assets include water and sewer connection fees. The resolution establishing the authority for water and sewer connection fees restricts the use of these fees to the construction, acquisition, or financing of capital assets. The water and sewer connection fees are exchange transactions (non-operating revenues). The connecting party receives a benefit (connection to the system) approximately equal in value to the amount paid. These fees do not represent capital contributions (non-exchange transactions).

Generally, restricted resources are not commingled with unrestricted resources in financing projects and activities and are used for specific types of projects for which such funding is designated. When both restricted and unrestricted resources are available for use, the District may use restricted resources or unrestricted resources, depending upon the type of project or activity, as determined by Board action.

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed daily on thirty-day cycles. Wastewater customers are also billed and included with the water billing. In certain areas of the District, the wastewater billing is handled by another water utility agency, however, revenues are accrued by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$12,186,560 at June 30, 2020.

Property Taxes

Property tax in California is levied in accordance with Article XIII A of the State Constitution at one percent of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. Property tax revenue is recognized in the fiscal year in which the taxes are levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment – November 1 Second installment – February 1
Delinquent date:	First installment – December 10 Second installment – April 10

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Debt Discounts, Premiums, and Deferred Amounts on Refunding

General obligation bond and revenue bond premiums and discounts are deferred and amortized over the term of the bonds. The discounts and premiums are presented as an addition (or reduction) of the face amount of the debt. Furthermore, in accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, deferred charges on refunding are presented as deferred outflows of resources on the Statement of Net Position.

Compensated Absences

The District has a policy whereby an employee can accumulate unused paid time off up to a maximum of 675 hours. Hours in excess of the maximum are paid out to employees each November. All employees who separate from the District are entitled to receive 100 percent of their accumulated unused paid time off. The District provides for these future costs by accruing 100 percent of all earned and unused paid time off.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2018
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	June 30, 2018 to June 30, 2019

Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust (CERBT) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and fiduciary net position information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2019
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	June 30, 2018 to June 30, 2019

Notes to Financial Statements June 30, 2020

NOTE 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District has five items that qualify for reporting in this category: the accumulated increase in fair value of swap contracts, the deferred outflows on pension contributions, the deferred outflows on OPEB contributions, the actuarial difference between projected and actual experience and changes in assumptions on pension plan investments and the deferred charges on debt refunding. These are reported on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category, the actuarial difference between expected and actual experience on pension plan investments and the actuarial difference between projected and actual earnings on OPEB plan investments. This is reported on the Statement of Net Position.

Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The fair value of the District's investments is categorized within Level 2 of the fair value hierarchy using the institutional bond quotes with evaluations based on various market and industry inputs.

Use of Estimates

The financial statements are prepared in conformity with generally accepted accounting principles, and therefore include amounts that are based on management's best estimates and judgments. Accordingly, actual results could differ from those estimates.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (cont'd)

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

Interest Rate Swap Contracts

The District entered into interest rate swap contracts to fix the interest rates on certain outstanding variable rate debt. These contracts are recorded at fair value.

Fair values of these interest rate swap contracts are reported as noncurrent liabilities, and its changes in the fair value are reported as deferred inflows of resources in the statement of net position. As of June 30, 2020, all potential hedging instruments of the District are considered effective hedges.

NOTE 2 - Cash and Investments

Cash and investments are classified in the accompanying Statement of Net Position as follows:

	<u>2020</u>
Current assets	\$ 354,748,487
Restricted assets:	
Debt service covenants	98,974,727
Construction	<u>140,936,517</u>
Totals	<u>\$ 594,659,731</u>

Cash and investments consisted of the following:

	<u>2020</u>
Cash on hand	\$ 6,500
Deposits with financial institutions	54,771,323
Investments	<u>539,881,908</u>
Total cash and investments	<u>\$ 594,659,731</u>

Cash and cash equivalents consisted of the following:

	<u>2020</u>
Demand accounts and on hand	\$ 54,777,823
Local Agency Investment Fund (LAIF)	100,972,230
Investment Trust of California (CalTRUST)	82,465,359
Money market mutual funds	<u>27,581,216</u>
Total cash and cash equivalents	<u>\$ 265,796,628</u>

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 2 – Cash and Investments (cont'd)

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code and the District's investment policy. The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
U.S. treasury obligations	Yes	5 Years	None	None
U.S. agency securities	Yes	5 Years	None	None
Bankers' acceptances	Yes	180 Days	40%	30%
Negotiable certificates of deposit	Yes	1 Year	30%	25%
Commercial paper	Yes	270 Days	25%	10%
Repurchase agreements	No ¹	1 Year	None	None
Reverse repurchase agreements	No	92 Days	20%	None
Medium-term notes	Yes	5 Years	30%	25%
Mortgage pass – through securities	No	5 Years	None	None
LAIF	Yes	None	None	\$65,000,000
CA local agency securities	Yes	5 Years ²	30% ³	25% ³
Mutual funds	No	N/A	None	None
Money market mutual funds	Yes	N/A	15%	10%
County pooled investment funds	No	N/A	None	None
Joint powers authority (CalTRUST)	Yes	N/A	15%	15%
Investment contracts	Yes	None	None	None

* Based upon State law or investment policy requirements, whichever is more restrictive.

1. Only permitted for use in the District's sweep account.

2. Maturities may exceed 5 years with specific required credit ratings.

3. Investments in the District's own tendered securities may exceed percentages on a temporary basis.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 2 – Cash and Investments (cont’d)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bonds trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District’s investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. treasury obligations	None	None	None
U.S. agency securities	None	None	None
State obligations or political subdivision of states	None	None	None
Bankers’ acceptances	1 Year	None	None
Certificates of deposit	None	None	None
Commercial paper	None	None	None
Guaranteed investment contracts	None	None	None
Repurchase agreements	30 Days	None	None
Money market mutual funds	None	None	None
LAIF	None	None	None

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 2 – Cash and Investments (cont'd)

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. One of the ways that the District 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 maturity evenly over time, as necessary to provide the cash flow and liquidity needed for operation.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the table below, which shows the distribution of the District's investment by remaining maturity.

Investment Type	Months			
	Total	12 or Less	13 to 24	25 to 60
U.S. Agency Securities:				
Federal Farm Credit Bank (FFCB)	\$ 68,508,644	\$ 23,596,977	\$ 2,077,922	\$ 42,833,745
Federal Home Loan Bank (FHLB)	62,168,385	49,036,304	3,125,481	10,006,600
Federal Home Loan Mortgage Corp. (FHLMC)	65,972,600	-	25,002,850	40,969,750
Federal National Mortgage Assn. (FNMA)	17,537,050	-	-	17,537,050
Tennessee Valley Authority (TVA)	4,667,854	4,667,854	-	-
Corporate - Fixed	45,690,681	25,728,001	14,794,530	5,168,150
Money Market Mutual Funds	210,347	210,347	-	-
Municipal	62,651,565	31,539,613	14,118,007	16,993,945
LAIF	100,972,230	100,972,230	-	-
Investment Trust of California (CalTRUST)	82,465,359	82,465,359	-	-
U.S. Treasury Obligations	1,666,324	1,666,324	-	-
Held by Trustee:				
Money Market Mutual Funds	27,370,869	27,370,869	-	-
Total Investments	\$ 539,881,908	\$ 347,253,878	\$ 59,118,790	\$ 133,509,240

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 2 – Cash and Investments (cont'd)

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 table below shows the minimum rating required by the California Government Code, the District investment policy, or debt agreements, and the actual Standard and Poor's Rating Services credit rating as of year-end for each investment type.

Category	Total	Minimum Legal Rating	Rating at June 30, 2020			
			AAA	AA	A	Not Rated
U.S. Agency Securities						
FFCB	\$ 68,508,644	N/A	\$ -	\$ 68,508,644	\$ -	\$ -
FHLB	62,168,385	N/A	-	62,168,385	-	-
FHLMC	65,972,600	N/A	-	65,972,600	-	-
FNMA	17,537,050	N/A	-	17,537,050	-	-
TVA	4,667,854	N/A	-	4,667,854	-	-
Corporate - Fixed	45,690,681	A	-	27,526,726	18,163,955	-
Money Market Mutual Funds	210,347	AAA*	210,347	-	-	-
Municipal	62,651,565	N/A	2,459,202	60,192,363	-	-
LAIF	100,972,230	N/A	-	-	-	100,972,230
CalTRUST	82,465,359	N/A	-	82,465,359	-	-
U.S. Treasury Obligations	1,666,324	N/A	-	1,666,324	-	-
Held by Trustee:						
Money Market Mutual Funds	27,370,869	AAA*	27,370,869	-	-	-
Total Investments	\$ 539,881,908		\$ 30,040,418	\$ 390,705,305	\$ 18,163,955	\$ 100,972,230

*Money market mutual funds are rated Aaa-mf by Moody's at June 30, 2020. This rating meets minimum rating requirements.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Investments in any one issuer other than U.S. Treasury securities, mutual funds and external investment pools that represent five percent or more of the District's total investments are shown below as of June 30, 2020:

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	U.S. Agency	\$ 68,508,644
Federal Home Loan Bank	U.S. Agency	62,168,385
Federal Home Loan Mortgage Corp	U.S. Agency	65,972,600

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 2 – Cash and Investments (cont'd)

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 a failure of the counter party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2020, 100 percent of the District's investments were held in collateralized accounts in the District's name.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized costs of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded at fair market value. Additional information about the State of California's LAIF can be found on their website – www.treasurer.ca.gov/pmia.laif.

Investment in Investment Trust of California (CalTRUST)

The District is a voluntary participant in CalTRUST, a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTRUST invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by CalTRUST for the entire CalTRUST portfolio. The balance available for withdrawal is based on the accounting records maintained by CalTRUST. For purposes of determining fair market value, securities are normally priced on a daily basis on specified days if banks are open for business and the New York Stock Exchange is open for trading. The value of securities is determined based on the market value of such securities or, if market quotations are not readily available, at fair value, under guidelines established by the Trustees. Investments with short remaining maturities may be valued at amortized cost, which the Board has determined to equal fair value.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

Fair Value Measurement

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2020:

Category	Fair Value Hierarchy			
	Total	Level 1	Level 2	Level 3
Investments reported at Fair Value				
U.S. Agency				
FFCB	\$ 68,508,644	\$ -	\$ 68,508,644	\$ -
FHLB	62,168,385	-	62,168,385	-
FHLMC	65,972,600	-	65,972,600	-
FNMA	17,537,050	-	17,537,050	-
TVA	4,667,854	-	4,667,854	-
Corporate - Fixed	45,690,681	-	45,690,681	-
Municipal	62,651,565	-	62,651,565	-
US Treasury	1,666,324	-	1,666,324	-
Total Investments at Fair Value	<u>\$ 328,863,103</u>	<u>\$ -</u>	<u>\$ 328,863,103</u>	<u>\$ -</u>

NOTE 3 - Capital Assets

The capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	Beginning Balance				Ending Balance
	June 30, 2019	Additions	Reductions	Transfers	
Capital assets, not being depreciated					
Land	\$ 64,866,802	\$ 1,489,354	\$ -	\$ -	\$ 66,356,156
Tunnel Water Seepage Agreement	1,750,900	-	-	-	1,750,900
Construction in progress	130,468,086	122,181,478	(86,828,079)	-	165,821,485
Total capital assets not being depreciated	197,085,788	123,670,832	(86,828,079)	-	233,928,541
Capital assets, being depreciated					
Water plant, lines and equipment	1,289,906,207	81,899,930	(4,949,900)	14,848,698	1,381,704,935
Water capacity rights	30,074,350	-	-	2,356,126	32,430,476
Sewer plant, lines and equipment	2,011,894,372	48,853,853	(4,596,476)	18,743,775	2,074,895,524
Equipment and general facilities	125,749,213	4,258,803	(2,599,496)	(35,948,599)	91,459,921
Total capital assets being depreciated	3,457,624,142	135,012,586	(12,145,872)	-	3,580,490,856
Less accumulated depreciation for					
Water plant, lines and equipment	540,075,387	44,490,408	(2,534,889)	(7,434,775)	574,596,131
Water capacity rights	10,953,784	781,633	-	687,060	12,422,477
Sewer plant, lines and equipment	707,219,669	51,299,836	(3,555,690)	6,582,169	761,545,984
Equipment and general facilities	90,494,049	6,645,989	(2,501,173)	165,546	94,804,411
Total accumulated depreciation	1,348,742,889	103,217,866	(8,591,752)	-	1,443,369,003
Total capital assets being depreciated, net	2,108,881,253	31,794,720	(3,554,120)	-	2,137,121,853
Capital assets, net	\$ 2,305,967,041	\$ 155,465,552	\$ (90,382,199)	\$ -	\$ 2,371,050,394

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 4 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2020 is as follows:

	Ending Balance June 30, 2019	Additions	Reductions	Ending Balance June 30, 2020	Due Within One Year
Long-Term Debt					
Advances for Construction, Notes and Assessments:					
CA DWR Prop 204 (HWFP)	\$ 17,045,319	\$ -	\$ (1,727,291)	\$ 15,318,028	\$ 878,394
SWRCB SRF loan (APAD)	31,120,286	-	(2,162,546)	28,957,740	2,171,672
SWRCB SRF loan (SCATT)	25,750,526	-	(1,864,720)	23,885,806	-
SWRCB SRF loan (N. Trumble Pond)	7,018,585	-	(218,449)	6,800,136	220,634
Total notes payable	80,934,716	-	(5,973,006)	74,961,710	3,270,700
Revenue Bonds:					
2011A refunding	9,275,000	-	(4,525,000)	4,750,000	4,750,000
2015A refunding	50,000,000	-	(50,000,000)	-	-
2015B	74,430,000	-	-	74,430,000	-
2016A Refunding	195,060,000	-	(5,460,000)	189,600,000	5,765,000
2016B Refunding	122,275,000	-	(1,420,000)	120,855,000	1,490,000
2017A Refunding	54,810,000	-	(54,810,000)	-	-
2017B Refunding	50,225,000	-	(50,225,000)	-	-
2017C Refunding	17,515,000	-	-	17,515,000	-
2017D	102,500,000	-	-	102,500,000	-
2018A Refunding	94,455,000	-	-	94,455,000	-
2018B Refunding	53,485,000	-	(345,000)	53,140,000	355,000
2018C Refunding	47,780,000	-	-	47,780,000	-
2020A Refunding	-	122,145,000	-	122,145,000	-
Unamortized premium	85,445,438	33,405,405	(4,812,884)	114,037,959	5,963,024
Total revenue bonds	957,255,438	155,550,405	(171,597,884)	941,207,959	18,323,024
General Obligation Bonds:					
2005A	10,845,000	-	(555,000)	10,290,000	580,000
2009	20,575,000	-	(580,000)	19,995,000	605,000
Net unamort prem/disc	319,723	-	(20,393)	299,330	20,393
Total GO bonds	31,739,723	-	(1,155,393)	30,584,330	1,205,393
Sub-total long term debt	1,069,929,877	155,550,405	(178,726,283)	1,046,753,999	22,799,117
Other Noncurrent Liabilities					
Compensated absences	12,010,370	9,096,935	(8,183,692)	12,923,613	9,009,510
Total long-term liabilities	\$ 1,081,940,247	\$ 164,647,340	\$ (186,909,975)	\$ 1,059,677,612	\$ 31,808,627

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 4 – Long-Term Liabilities (cont'd)

The following schedule summarizes the major terms of outstanding long-term debt:

	Date of Issue	Original Issue	Revenue Sources	Lien	Final Maturity Date	Interest Rates
Advances for construction, notes and assessments:						
CA DWR Prop 204 (HWFP) <i>Hemet Water Filtration Plant Construction Project</i>	03/03/05	\$ 42,098,388	(a)	Subordinate	07/01/28	Imputed -2.273%
SWRCB SRF loan (APAD) <i>Moreno Valley RWRP Acid Phase Anaerobic Digestion Project</i>	09/15/09	43,908,096	(a)	Subordinate	03/16/33	0.422%
SWRCB SRF loan (SCATT) <i>Moreno Valley RWRP Secondary Clarifier & Tertiary Treatment Expansion Project</i>	06/23/09	38,302,852	(a)	Subordinate	07/05/32	1.0%
SWRCB SRF loan (N. Trumble) <i>Recycled Water Pond Optimization Project - N. Trumble & Perris Valley RWRP</i>	04/26/18	7,455,594	(a)	Subordinate	06/30/47	1.0%
Revenue Bonds:						
2011A Refunding	07/20/11	56,225,000	(a)	Senior	07/01/20	4% to 5%
2015B	06/18/15	74,430,000	(a)	Subordinate	07/01/46	4% to 5%
2016A Refunding	04/05/16	209,230,000	(a)	Subordinate	07/01/45	2% to 5%
2016B Refunding	09/14/16	124,925,000	(a)	Subordinate	07/01/35	2% to 5%
2017C Refunding	05/02/17	17,515,000	(a)	Subordinate	07/01/23	5.0%
2017D	05/18/17	102,500,000	(a)	Subordinate	07/01/47	5.0% to 5.25%
2018A Refunding	09/26/18	94,455,000	(a)	Subordinate	07/01/46	Variable
2018B Refunding	09/13/18	53,485,000	(a)	Subordinate	07/01/30	Variable
2018C Refunding	09/13/18	47,780,000	(a)	Subordinate	07/01/46	Variable
2020A Refunding	05/27/20	122,145,000	(a)	Senior	07/01/38	Fixed
General Obligation Bonds:						
2005A	06/07/15	18,255,000	(b)	N/A	09/01/35	4% to 5%
2009	08/12/09	31,625,000	(b)	N/A	09/01/39	4.25% to 5.625%

(a) Net water and sewer revenues

(b) Ad valorem taxes levied and collected on sixty-one special improvement districts within the District's service area

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 4 – Long-Term Liabilities (cont'd)

Future principal and interest requirements on all long-term debt are as follows:

Year Ending June 30	Principal	Interest	Total
2021	\$ 16,815,700	\$ 31,870,878	\$ 48,686,578
2022	21,668,891	33,774,324	55,443,215
2023	22,519,995	32,913,436	55,433,431
2024	23,097,285	32,019,298	55,116,583
2025	25,375,778	31,015,896	56,391,674
2026-2030	140,816,866	140,422,222	281,239,088
2031-2035	169,838,580	109,386,344	279,224,924
2036-2040	179,871,619	69,329,016	249,200,635
2041-2045	200,953,270	37,053,865	238,007,135
2046-2048	131,458,726	8,074,996	139,533,722
Sub-total	932,416,710	525,860,275	1,458,276,985
Add: Unamortized premium/discount	114,337,289	-	114,337,289
Total	<u>\$ 1,046,753,999</u>	<u>\$ 525,860,275</u>	<u>\$ 1,572,614,274</u>

Advances for Construction, Notes and Assessments

Advances for construction, notes and assessments include project financing agreements executed with the State of California Department of Water Resources and the State of California Water Resources Control Board between March 2005 and January 2016. These agreements, detailed in the summary of major terms of outstanding long-term debt, provide financing for various projects and construction costs.

Future principal payments and interest payments on these advances for construction, notes and assessments are as follows:

Year Ending June 30	Principal	Interest	Total
2021	\$ 3,270,700	\$ 364,269	\$ 3,634,969
2022	6,073,891	735,763	6,809,654
2023	6,144,995	664,657	6,809,652
2024	6,217,285	592,369	6,809,654
2025	6,290,778	518,874	6,809,652
2026-2030	29,406,866	1,484,023	30,890,889
2031-2035	14,308,580	382,890	14,691,470
2036-2040	1,306,619	136,559	1,443,178
2041-2045	1,373,270	69,908	1,443,178
2046-2047	568,726	8,544	577,270
Total	<u>\$ 74,961,710</u>	<u>\$ 4,957,856</u>	<u>\$ 79,919,566</u>

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 4 – Long-Term Liabilities (cont'd)

On July 12, 2017, the District executed a project financing agreement with the State of California Water Resources Control Board to provide financing, under the Clean Water State Revolving Fund, for the Recycled Water Optimization Program project. This agreement provides \$95,264,880 in funding with a future thirty-year loan at an interest rate of 1.8 percent. Contingent on the District's performance of its obligations under this agreement, the estimated amount of principal that will be due to the State Water Board is \$64,104,188 with the remaining \$15.0 million awarded as a grant. Loan repayment is expected to begin in December 21, 2020. Construction advances totaling \$47,052,375 for this project were recorded through June 30, 2020.

Revenue Bonds

The outstanding revenue bonds were issued to provide financing for various projects and facility improvements and to refund certain prior revenue Bonds issued for the purpose of decreasing related debt service costs. Outstanding revenue Bonds are detailed in the summary of major terms of outstanding long-term debt.

Future principal and interest payments on all revenue Bonds as of June 30, 2020 are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 12,360,000	\$ 29,961,553	\$ 42,321,553
2022	14,355,000	31,547,702	45,902,702
2023	15,090,000	30,817,410	45,907,410
2024	15,535,000	30,058,366	45,593,366
2025	17,680,000	29,195,016	46,875,016
2026-2030	104,385,000	133,463,008	237,848,008
2031-2035	146,610,000	105,580,590	252,190,590
2036-2040	170,685,000	68,134,395	238,819,395
2041-2045	199,580,000	36,983,957	236,563,957
2046-2048	130,890,000	8,066,452	138,956,452
	<u>827,170,000</u>	<u>503,808,449</u>	<u>1,330,978,449</u>
Add: Unamortized premium	114,037,959	-	114,037,959
Total	<u>\$ 941,207,959</u>	<u>\$ 503,808,449</u>	<u>\$ 1,445,016,408</u>

2020A Refunding Revenue Bonds

In May 2020, the Financing Authority issued \$122,145,000 in Refunding Revenue Bonds, Series 2020A. The net proceeds were used to current refund the District's outstanding Refunding Revenue Bonds, Series 2015A; Refunding Revenue Bonds, Series 2017A; Refunding Revenue Bonds, Series 2017B; and to pay the costs of issuance of the 2020A bonds.

The 2015A bonds, 2017A bonds, and 2017B bonds were all variable rate debt. A combination of economic factors led to market rates hitting all-time historic lows. While low rates benefit variable rate instruments in the short term (i.e., low interest expense), by refunding these series of bonds with the 2020A bonds, the District took advantage of a cost-effective opportunity to fix-out a significant majority of its variable rate debt at a low rate, improved its credit and risk profile, and freed up the capacity to issue variable rate debt in the future during a rising interest rate environment. The refunding of the 2015A bonds, the 2017A bonds, and 2017B bonds resulted in \$3.19 million net present value savings. The 2020A bonds were issued on the subordinate lien which maintained the debt service coverage on the District's outstanding senior debt.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 4 – Long-Term Liabilities (cont'd)

The 2020A bonds include principal installments due in varying amounts from \$2.5 million to \$28.2 million due annually from July 1, 2024 to July 1, 2038, with interest payable semiannually at 5 percent from July 1, 2024 to July 1, 2027, 2.75 percent due July 1, 2028, and 5 percent from July 1, 2029 to July 1, 2038.

General Obligation (GO) Bonds

The outstanding general obligation bonds were issued by the Western Riverside Water and Wastewater Financing Authority in May 2005 and August 2009 to finance certain water and/or sewer facilities for the improvement districts and to pay the costs of executing and delivering the GO Bonds. The major terms of these bonds are detailed in the summary of major terms of outstanding long-term debt.

Future principal and interest payments on total general obligation bonds are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,185,000	\$ 1,545,056	\$ 2,730,056
2022	1,240,000	1,490,859	2,730,859
2023	1,285,000	1,431,369	2,716,369
2024	1,345,000	1,368,563	2,713,563
2025	1,405,000	1,302,006	2,707,006
2026-2030	7,025,000	5,475,191	12,500,191
2031-2035	8,920,000	3,422,864	12,342,864
2036-2040	7,880,000	1,058,062	8,938,062
	<u>30,285,000</u>	<u>17,093,970</u>	<u>47,378,970</u>
Add: Unamortized premium	299,330	-	299,330
Total	<u>\$ 30,584,330</u>	<u>\$ 17,093,970</u>	<u>\$ 47,678,300</u>

The general obligation bonds are callable prior to maturity, subject to certain call premiums. The liability for the general district bonds and improvements within the respective special districts, and the funds for retirement thereof, are derived from a bond redemption levy based on the assessed valuation within the individual improvement districts. At June 30, 2020, general obligation bonds authorized but not issued total \$547,650,000.

Other Accrued Expenses Payable

Included in other accrued expenses payable are software licenses with payments extending beyond one year. The license agreements have maturities from 2-5 years.

Future payments on the agreements are as follows:

<u>Year Ending June 30</u>	
2021	\$ 567,304
2022	519,436
2023	264,980
2024	<u>264,980</u>
Total	<u>\$ 1,616,700</u>

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 4 – Long-Term Liabilities (cont'd)

Debt Service Reserve Funds

The District is required to maintain Debt Service Reserve Funds for three outstanding SRF Loans, the Hemet Water Filtration Plant (HWFP) State Revolving Fund, the North Trumble Pond State Revolving Fund and the TVRWRF State Revolving Fund. The Reserve Funds are equal to one year's debt service payment and shall be maintained for the full term of the loan agreements. The current required reserve amounts and the reserve balance at June 30, 2020 for the outstanding debt are as follows:

<u>Description</u>	<u>Required</u>	<u>Actual</u>	<u>Excess (Deficiency)</u>
Hemet WFP SRF - \$4.21M ¹	\$ 2,104,920	\$ 2,160,149	\$ 55,229
N. Trumble Pond SRF	288,635	288,635	-
TVRWRF SRF	3,492,269	3,492,269	-
Total Debt Service Reserve Funds	<u>\$ 5,885,824</u>	<u>\$ 5,941,053</u>	<u>\$ 55,229</u>

¹ The total required reserve per loan agreement is \$2,104,920. Half of this amount is required to be and was deposited by the first of ten semi-annual payments (July 1, 2013) and the remainder of the balance was required to be deposited by the tenth year of the repayment period (approximately July 1, 2018).

Master Resolution

The District adopted Resolution No. 2667, entitled "A Resolution of the Board of Directors of the Eastern Municipal Water District Providing for the Allocation of Water and Sewer Revenue" (the "Master Resolution") to establish various reserves and covenants of which the following are required to be maintained:

1. Debt Coverage Ratio

The District has covenanted that Net Water and Sewer Revenues shall be at least 1.15 times the sum of all Debt Service on all Parity Obligations, plus the amount of all deposits required to be made to the Operating Reserve Fund. As of June 30, 2020, the District's parity and subordinate obligation debt service coverage ratios were 36.6 times and 4.0, respectively.

2. Operating Reserve Fund

The District has covenanted that it will maintain a minimum of one quarter of its annual maintenance and operating costs as set forth in its operating budget in a separate reserve fund. The required reserve amount and the actual reserve balance at June 30, 2020 was \$46,048,843 and \$50,131,345, respectively.

Standby Certificate Purchase Agreements

Included in long-term debt at June 30, 2020 are \$94,455,000 Series 2018A Revenue Bonds. This variable rate debt issuance has a tender provision for bondholders on seven-day notice, to tender their bonds at par value plus accrued interest. In connection with the issuance of the debt, the District executed a Standby Purchase Agreement (SPA) between the Corporation and Bank of America, N.A. The SPA expiration date is September 27, 2022. The SPA is terminated prior to the expiration date only if there is an occurrence of "events of defaults." As of June 30, 2020, there were no outstanding bonds that have been tendered but failed to be remarketed.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 5 – Interest Rate Swap Contracts

Plan Description

The fair value balances and notional amounts of financial instruments (instruments) outstanding at June 30, 2020, classified by type and the changes in fair value of such instruments for the year then ended are shown in the following table.

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2020</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Cash flow hedges:					
2018B Bonds	Pay-fixed interest swap				
	Deferred outflow	\$ (2,877,955)	Debt	\$ (10,477,957)	\$ 53,140,000
2018C Bonds	Pay-fixed interest swap - cost of funds				
	Deferred inflow	\$ 302,343	Debt	\$ (31,588)	\$ 7,570,000

The expected swap cash flows are calculated using the zero-coupon discounting method which takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and assumes that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. The income approach is then used to obtain the fair value of the swaps, where future amounts (the expected swap cash flows) are converted to a single current (discounted) amount, using a rate of return that takes into account the relative risk of nonperformance associated with the cash flows, and time value of money. The observability of inputs used to perform the measurement results in the swap fair values being categorized as Level 2.

Objective and Terms of Financial Instruments

The District entered into the financial instruments to increase interest rate savings realized by refunding various outstanding debt. The District realized greater interest savings from debt refinancing by issuing variable interest rate debt along with the financial instruments than would have been realized had the District issued conventional fixed rate debt.

The following table displays the objective and terms of the District's financial instruments outstanding at June 30, 2020, along with the credit rating of the associated counterparty.

<u>Type</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2018B debt issue	\$ 53,140,000	11/01/14	07/01/30	Pay 3.1%, receive 66% of one-month LIBOR from WFB	S&P: A+ Moody's: Aa2
Pay-fixed interest rate swap	Hedge of changes in cash flows on the 2018C debt issue	\$ 7,570,000	12/01/14	07/01/20	Pay 5.125%, receive the SIFMA Swap Index from WFB	S&P: A+ Moody's: Aa2

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 5 – Interest Rate Swap Contracts (cont'd)

Credit Risk

The counterparty credit ratings as of June 30, 2020 are shown in the table above. If the counterparty credit rating is lowered to or below Baa1 by Moody's Investors Service (Moody's) or BBB+ by Standard & Poor's (S&P), the financial instruments may be terminated. The counterparty credit ratings for Wells Fargo Bank either met or exceeded these rating requirements at June 30, 2020.

Interest Rate Risk

The District is exposed to interest rate risk on its financial instruments. As the 1-month LIBOR or the SIFMA Swap Index decreases, the District's net payment on the swap increases.

Basis Risk

The financial instruments expose the District to basis risk, which refers to a mismatch between the interest rate received from the swap contract and the interest paid on the variable rate payment to be made on the debt. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination Risk

The financial instruments may be terminated by the District or its counterparty if the other party fails to perform under the terms of the contract. In addition, the District has the option to terminate the financial instruments upon proper notification to the counterparties. If the financial instruments are terminated, the District would prospectively pay the variable rates on the 2018B and 2018C bonds rather than fixed rate payments under the financial instruments. The termination could therefore increase the District's total debt service. If, at the time of termination, the financial instrument is in a liability position, the District would be liable to the counterparty for a payment equal to the negative fair value.

Collateral Requirements

The financial instruments include provisions that require the District to post collateral in the event the lowest credit rating assigned to any of its long-term, unenhanced debt secured by a pledge of Net Water and Sewer Revenues falls below A- as issued by Fitch Ratings, A- as issued by Standard & Poor's Rating Services, or A3 as issued by Moody's Investors Service. The collateral posted is required to be in the form of cash or U.S. Treasury securities in the amount of the fair value of the financial instrument, net of agreed upon adjustments. If the District does not post collateral, the financial instruments may be terminated by the counterparty. At June 30, 2020, the aggregate fair value of all financial instruments with these collateral posting provisions is a negative \$10,509,545. If the collateral posting requirements were triggered at June 30, 2020, the District would be required to post \$10,509,545 to the counterparty. The District's credit ratings for its senior Revenue Bonds were AAA/Aa1/AA+ and the credit ratings for its subordinate Revenue Bonds were AA+/Aa2/AA+ by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Rating Services, respectively; therefore, no collateral was posted at June 30, 2020.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 6 – Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District’s agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employees. Benefit provisions under the Plans are established by State statute and local government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of credited service equal to one year of full-time employment. The Plans’ provisions and benefits in effect at June 30, 2020 are summarized as follows:

	<u>Miscellaneous</u>		
	<u>Prior to 11/1/10</u>	<u>11/1/10-1/1/13</u>	<u>On or after 1/1/2013</u>
Hire date			
Benefit formula	2.5% @ 55	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50-55	50-55	62-67
Monthly Benefits as a % of eligible compensation	2.5%	2.0% to 2.5%	2.0% to 2.5%
Required employee contribution rates	8.0%	7.0%	6.25%
Required employer contribution rates	9.54%	9.54%	9.54%

Employees Covered

The following employees were covered by the benefit terms as of the measurement date:

Active Members	612
Transferred Members	83
Terminated Members	111
Retired Members and Beneficiaries	541
Total	<u>1,347</u>

Contribution Description

Section 20814 (c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following the notice of a change in the rate. The total plan contributions are determined through the CalPERS annual actuarial valuation report. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2019 (the measurement date), the District’s average contribution rate is 17.19 percent of annual payroll. District contribution rates may change if plan contracts are amended. It is the responsibility of the District to make necessary accounting adjustments to reflect the impact due to any District Paid Member Contributions or situations where members are paying the portion of the District contribution.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 6 – Defined Benefit Pension Plan (cont'd)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2018 valuation was rolled forward to determine the June 30, 2019 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	The lesser of contract COLA or 2.5% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.5% thereafter

¹ The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 6 – Defined Benefit Pension Plan (cont'd)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS considered both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set-up equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as follows:

Asset Class ¹	New Strategic Allocation	Real Return Years 1 - 10 ²	Real Return Years 11+ ³
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
	<u>100.00%</u>		

¹In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are in both Global Equity Securities and Global Debt Securities.

²An expected inflation of 2.00% used for this period.

³An expected inflation of 2.92% used for this period.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 6 – Defined Benefit Pension Plan (cont'd)

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at 6/30/2018 (VD)	\$ 450,120,011	\$ 317,330,755	\$ 132,789,256
Changes Recognized for the Measurement Period:			
Service Cost	9,193,622	-	9,193,622
Interest on the Total Pension Liability	32,144,217	-	32,144,217
Differences between Expected and Actual Experience	5,259,636	-	5,259,636
Contributions - Employer	-	12,446,688	(12,446,688)
Contributions - Employees ¹	-	4,054,435	(4,054,435)
Net Investment Income	-	20,890,658	(20,890,658)
Benefit Payments, including Refunds of Employee Contributions	(20,813,982)	(20,813,982)	-
Administrative Expense	-	(226,454)	226,454
Other Miscellaneous Income(Expense)	-	736	(736)
Net Changes during 2018-2019	\$ 25,783,493	\$ 16,352,081	\$ 9,431,412
Balance at 6/30/2019 (MD)	\$ 475,903,504	\$ 333,682,836	\$ 142,220,668

(VD) Valuation Date

(MD) Measurement Date

¹Includes both employee contributions and the employer paid member contributions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage point higher (8.15 percent) than the current rate:

	Discount Rate -1% 6.15%	Current Discount 7.15%	Discount Rate +1% 8.15%
Plan's Net Pension Liability/(Asset)	\$ 207,365,676	\$ 142,220,668	\$ 88,334,402

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 6 – Defined Benefit Pension Plan (cont'd)

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Differences between projected and actual earnings	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The EARSL for the Plan for the measurement period ending June 30, 2019 is 4.6 years, which was obtained by dividing the total service years of 6,184 (the sum of remaining service lifetimes of the active employees) by 1,347 (the total number of participants: active, inactive and retired). Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the measurement period ending June 30, 2019 (the measurement date), the District recognized a pension expense of \$23,276,901 for the plan.

As of June 30, 2020, the District reported other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 14,572,035	\$ -
Changes in Assumptions	8,672,987	(2,078,258)
Differences between Expected and Actual Experience	6,123,019	(1,121,752)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(2,081,944)
Total	\$ 29,368,041	\$ (5,281,954)

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 6 – Defined Benefit Pension Plan (cont'd)

The \$14,572,035 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Measurement Period</u> <u>Ending June 30</u>	<u>Deferred</u> <u>Outflows/(Inflows)</u> <u>of Resources</u>
2020	\$ 6,781,307
2021	1,126,079
2022	606,509
2023	1,000,157
2024	-

NOTE 7 – Defined Contribution Plan

The District maintains the EMWD 401(a) Plan, a defined contribution money purchase pension plan that is qualified under Internal Revenue Code Section 401(a). The District has an agreement with Nationwide Retirement Solutions (Nationwide) whereby Nationwide receives, invests, and reports on the funds sent to them on behalf of eligible employees. Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its Union. Employees are vested in the funds contributed on their behalf after one year of service and have several investment options within the lineup of funds available at Nationwide. The 401(a) Plan was adopted in January 1978 and may be amended by the District, provided Nationwide joins in such amendment. The District's required contributions to the 401(a) Plan are 7.15 percent of each eligible employee's compensation, up to a maximum annual compensation of \$16,500. The District's contribution to the 401(a) Plan was \$787,893 for the fiscal year ended June 30, 2020.

In July 2011, the District executed a plan amendment to its 401(a) Plan to provide for a contribution to this 401(a) Plan on behalf of the General Manager in accordance with his employment contract. Contribution to this 401(a) Plan was \$48,733 the fiscal year ended June 30, 2020.

The district provides a voluntary 457(b) deferred compensation plan for employees to contribute to their retirement on a tax-deferred basis. In October 2013, the District executed an amendment to its 401(a) Plan to provide for a matching contribution for those employees contributing to the 457(b) deferred compensation plan. The District's matching contributions will be paid into the 401(a) plan equal to 100 percent of an employee's 457(b) contribution at a rate of 4.0 percent of annual base pay for employees hired and have maintained continuous employment with the District on or before December 31, 2012 and 5.0 percent of annual base pay for employees hired and have maintained continuous employment with the District on or after January 1, 2013 (this is not applicable to employees who are re-hired and are vested for retiree medical higher than the PEMHCA minimum; these employees will be eligible for the 4.0 percent match noted earlier.) Matching contributions to the 401(a) plan totaled \$1,839,422 for the fiscal year ended June 30, 2020.

Notes to Financial Statements June 30, 2020

NOTE 8 - Postemployment Benefits Other Than Pension

Plan Description

Health Care Benefits - The District provides postemployment health care benefits to all qualified employees who meets the District's California Public Employees' Retirement System (PERS) plan requirements. This plan is an agent multiple employer defined benefit OPEB plan. This plan contributes an amount for the retiree and dependents, as applicable, with eligibility based on the Health Benefit Vesting Requirements found in Government Code 22893 (Vesting for Contracting Agency Employees). This amount of District's contribution varies according to the retiree's medical benefit tiers as follows:

Tier 1 (hired prior to August 1, 2005) –The District's contribution is 100 percent of the coverage level elected by the retiree up to the greater of the basic monthly rate under PEMHCA. The District's medical premium contributions will be adjusted using the average of the percentage premium increases from all District offered medical plans which had active employee enrollments in July, rounded up to the next whole dollar, respectively. If the cost of an employee's medical coverage provided through PEMHCA or Kaiser 'A' exceeds the District's total contributions towards the coverage, the employee will be responsible for contributing the difference. Employee contributions will be made through the District's cafeteria plan on a pre-tax basis (or as mandated by regulations).

Effective for the 2019 calendar year, the District's contribution is 100 percent of the coverage level elected by the retiree up to the maximum of \$684 per month for single coverage, \$1,367 per month for two-party coverage and \$1,772 per month for family coverage. The District's contribution consists of the CalPERS statutory minimum required contribution of \$136 per month for 2019 and \$139 per month for 2020 and a contribution through a health reimbursement arrangement (HRA). Retirees in the Kaiser A HMO are required to pay a monthly contribution based on the family coverage category elected. The District's contribution towards retiree medical benefits is paid for the lifetime of the eligible retiree or the surviving spouse upon the death of the eligible retiree.

Tier 2 (hired from August 1, 2005 to March 26, 2014) – The District's contribution is 100 percent of the coverage level elected by the retiree up to the greater of the same contribution amount as a retiree hired prior to August 1, 2005 multiplied by a vesting schedule or the 100/90 amount per PEMHCA. The 100/90 amount is 100 percent of the weighted average of single coverage and 90 percent of the weighted average of additional premium for the two-party and family coverage for the four PEMHCA plans with the highest State enrollment in the prior year (for 2019: \$700 per month for single, \$1,399 per month for two-party and \$1,814 per month for family). The vesting percentages, according to PEMHCA Section 22893, range from 50 percent to 100 percent for retirees with service of ten years to 20 years or more. The District's contribution consists of the CalPERS statutory minimum required contribution of \$136 per month for 2019 and \$139 per month for 2020 and a contribution through a health reimbursement arrangement (HRA). The District's contribution towards retiree medical benefits is paid for the lifetime of the eligible retiree or the surviving spouse upon the death of the eligible retiree.

Tier 3 (hired after March 26, 2014) – The District's contribution is the PEMHCA minimum required contribution of \$136 per month in 2019 and \$139 per month for 2020.

The District also provides healthcare benefits to elected official retirees in accordance with the District's Administrative Code. This plan contributes up to the District's contribution amount for employees and dependent coverage.

Life Insurance Benefits - In addition, the District provides postemployment group life insurance to eligible retired employees and elected officials with a death benefit of \$10,000 up to age 70 and \$5,000 thereafter for retired employees; and a death benefit of \$5,000 up to age 70 and \$2,500 thereafter for elected officials.

The benefit provisions for retiree employee health care and life insurance are established and amended through the memorandum of understanding between the District and the Union. The benefit provisions for retired elected official life insurance are established through the District's contract with the life insurance company. The District does not issue separate stand-alone financial reports for these plans.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 8 – Postemployment Benefits Other Than Pension (cont'd)

Employees Covered

As of the June 30, 2019 measurement date, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	606
Inactive employees or beneficiaries receiving benefits	405
Inactive employees entitled to but not yet receiving benefits	<u>66</u>
Total	<u><u>1,077</u></u>

Contributions

Contribution requirements of the District are established and may be amended through the memorandum of understanding between the District and its union. The contribution requirements of the District for retired elected officials may be amended through Board action to update the Ordinance 70, for the health benefit plan, or with the life insurance company, for the life insurance benefits. The District's policy is to achieve full funding of its unfunded actuarial accrued or net OPEB liability by fiscal year 2033-2034. The District's funding practice is to fund at least the actuarially determined contribution, inclusive of direct payments for retiree health payments and the implied subsidy, which is determined based on the normal cost plus an amortization of the net (unfunded accrued) OPEB liability over a reasonable period of time (currently fifteen years). For the fiscal year ended June 30, 2020, the District's cash contributions were \$18.0 million in payments to the trust and the estimated implied subsidy was \$1,006,063.

On April 18, 2012, the District's Board of Directors adopted a resolution to establish an OPEB Trust and to authorize an agreement with PERS to join the California Employers' Retiree Benefit Trust (CERBT) Program. On June 12, 2012, the District joined the CERBT Program, an agent multiple-employer plan consisting of an aggregation of single-employer plans. PERS issues a publicly available financial report that includes financial statements and required supplementary information relating to the CERBT program. The report can be obtained through their website at www.calpers.ca.gov.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 8 – Postemployment Benefits Other Than Pension (cont’d)

Net OPEB Liability

The District’s net OPEB liability was measured on June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019 based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal																				
Actuarial Assumptions:																					
Discount Rate	7.00%																				
Inflation	2.50%																				
Salary Increases	2.75% per annum plus CalPERS merit scale																				
Investment Rate of Return	7.00% per year; assumes the District invests in the CERBT asset allocation Strategy 1 with a margin of adverse deviation of 28 bps																				
Mortality Rate ¹	Derived from the 2014 CalPERS experience study																				
Pre-Retirement Turnover ²	Derived from the 2017 CalPERS pension plan valuation																				
Healthcare Trend Rate	Medical costs are adjusted in future years by the following trends:																				
	<table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding-right: 10px;"><u>Year</u></th> <th style="text-align: left;"><u>Trend</u></th> </tr> </thead> <tbody> <tr><td>2020</td><td>6.50%</td></tr> <tr><td>2021</td><td>6.25%</td></tr> <tr><td>2022</td><td>6.00%</td></tr> <tr><td>2023</td><td>5.75%</td></tr> <tr><td>2024</td><td>5.50%</td></tr> <tr><td>2025</td><td>5.25%</td></tr> <tr><td>2026</td><td>5.00%</td></tr> <tr><td>2027</td><td>4.75%</td></tr> <tr><td>2028+</td><td>4.50%</td></tr> </tbody> </table>	<u>Year</u>	<u>Trend</u>	2020	6.50%	2021	6.25%	2022	6.00%	2023	5.75%	2024	5.50%	2025	5.25%	2026	5.00%	2027	4.75%	2028+	4.50%
<u>Year</u>	<u>Trend</u>																				
2020	6.50%																				
2021	6.25%																				
2022	6.00%																				
2023	5.75%																				
2024	5.50%																				
2025	5.25%																				
2026	5.00%																				
2027	4.75%																				
2028+	4.50%																				

Notes:

¹ Mortality rates are based on:
 Healthy Actives & Retirees: SOA Pub-2010 General Headcount Weighted Mortality Table fully generational using Scale MP-2019
 Surviving Spouses: SOA Pub-2010 Continuing Survivor Headcount Weighted Mortality Table fully generational using Scale MP-2019
 Disabled Retirees: SOA Pub-2010 Disabled Headcount Weighted Mortality Table fully generational using Scale MP-2019

² The pre-retirement turnover information was developed based on the termination rates under the CalPERS pension plan.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 8 – Postemployment Benefits Other Than Pension (cont’d)

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan’s target allocation as of June 30, 2019 are summarized in the following table:

Asset Class	Strategy 1	
	Target Allocation	Long-Term Expected Rate of Return
Global Equity	59.00%	5.50%
Global Debt Securities	25.00%	2.35%
Inflation Assets	5.00%	1.50%
Commodities	3.00%	1.75%
REITS ¹	8.00%	3.65%
Total	100.00%	

¹REITS - Real Estate Investment Trusts

Long-term expected rate of return is 7.00 percent.

Discount Rate

The discount rate used to measure total OPEB liability was 7.00 percent, assuming full funding by 2033/2034.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 8 – Postemployment Benefits Other Than Pension (cont'd)

Changes in OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at 6/30/2019 (MD June 30, 2018)	\$ 112,600,561	\$ 55,749,350	\$ 56,851,211
Changes Recognized for the Measurement Period:			
Service Cost	3,248,883	-	3,248,883
Interest	7,945,843	-	7,945,843
Differences between expected and actual experience	(7,012,819)		(7,012,819)
Changes of assumptions	(5,792,972)		(5,792,972)
Contributions from the Employer	-	19,240,938	(19,240,938)
Net Investment Income	-	4,177,706	(4,177,706)
Benefit Payments	(4,674,792)	(4,674,792)	-
Administrative Expense	-	(14,762)	14,762
Other	-	-	-
Net Changes	\$ (6,285,857)	\$ 18,729,090	\$ (25,014,947)
Balance at 6/30/2020 (MD June 30, 2019)	\$ 106,314,704	\$ 74,478,440	\$ 31,836,264

(MD) Measurement Date

Sensitivity of the Net OPEB Obligation Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2019:

	1% Decrease	Current	1% Increase
	(6.00%)	Discount Rate (7.00%)	(8.00%)
Net OPEB Liability	\$ 45,947,959	\$ 31,836,264	\$ 20,195,742

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 8 – Postemployment Benefits Other Than Pension (cont'd)

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for the measurement period ended June 30, 2019:

	1% Decrease (5.50%HMO/5.50%PPO decreasing to <u>3.50%HMO/3.50%PPO</u>)	Current Healthcare Cost Trend Rates (6.50%HMO/6.50%PPO decreasing to <u>4.50%HMO/4.50%PPO</u>)	1% Increase (7.50%HMO/7.50%PPO decreasing to <u>5.50%HMO/5.50%PPO</u>)
Net OPEB Liability	\$ 18,973,655	\$ 31,836,264	\$ 47,678,397

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For fiscal year June 30, 2020, the District recognized OPEB expense of \$4,351,821. As of fiscal year ended June 30, 2020, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 19,006,063	\$ -
Differences between expected and actuarial experience	-	(5,844,016)
Changes of assumptions	-	(4,827,477)
Differences between actual and projected earnings	-	(669,875)
Total	<u>\$ 19,006,063</u>	<u>\$ (11,341,368)</u>

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 8 – Postemployment Benefits Other Than Pension (cont'd)

The \$19,006,063 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Measurement Periods Ended June 30	Deferred Outflows (Inflows) of Resources
2020	(2,445,914)
2021	(2,445,912)
2022	(2,227,754)
2023	(2,087,487)
2024	(2,134,301)
	<u>\$ (11,341,368)</u>

NOTE 9 - Restricted and Unrestricted Net Position

Restricted Net Position

Net Position restricted for debt service/covenants represent constraints required by the District's Master Resolution and third-party general obligation bondholders.

Net Position restricted for construction represent constraints on legally restricted funds received and unspent from developers as required by State law.

Unrestricted Net Position

As required by GASB Statement No. 34, net position has been classified according to guidelines established for restricted net position. The unrestricted net position, although not legally restricted, has been established pursuant to Board Resolution No. 3359 and is primarily composed of reserves for various purposes.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 10 – Commitments

Construction Contracts

	Contract Amount	Balance To Complete
Perris II Desalination Facility	\$ 53,165,206	\$ 25,963,381
Mountain Avenue West Replenishment Basin	13,911,751	6,749,813
Pala Lift Station Electrical Equipment Upgrade	2,257,000	2,036,950
Las Brisas Transmission Water Pipeline	1,575,555	1,480,055
I-215 Freeway & Placentia Avenue Interchange- Water & Sewer Relocation	1,717,777	1,366,199
TVRWRF Boiler Installation	1,566,000	1,312,162
MV/SJV/TV RWRF's Blower Electrification Project	7,696,138	1,037,651
Well 59 Wellhead Treatment Facility	2,476,350	991,650
Corwin Booter Electrical Replacement	794,645	769,645
Temecula Valley Recycled Water Pipeline	9,553,353	685,915
TOTAL	\$ 94,713,775	\$ 42,393,421

Claims and Judgments

The District is exposed to various risks of loss related to torts, theft, damage, and destruction of assets, error and omissions, road and walkway design hazards, vehicle accidents and flooding for which the District maintains various insurance programs. The District has entered into contracts to oversee and administer these programs.

The District maintains excess insurance coverage of \$10,000,000 per occurrence with a \$1.0 million self-insured retention per incident for losses sustained because of liability imposed on the District by the Workers' Compensation Act. For general liability, the District maintains excess insurance coverage of \$30,000,000 per occurrence with a \$1,000,000 self-insured retention.

Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The liability for claims and judgments is included in other accrued expenses. The District did not have any non-incremental claims adjustment expenses that needed to be included as part of the unpaid claims liability. In November 2012, a worker's compensation claim stipulated was reached, which included a present value of \$5.3 million in future payments calculated using a discount rate of 3.0 percent over 30 years. This claim, which was resolved and closed as of June 30, with no continued future liability, resulted in a decrease in the workers compensation liability. Changes in claims payable for the years ended June 30 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
	June 30, 2019			June 30, 2020	
General Liability	\$ 106,980	\$ 524,388	\$ (81,768)	\$ 549,600	\$ 549,600
Workers Compensation	6,108,582	864,894	(4,943,638)	2,029,838	177,775
	\$ 6,215,562	\$ 1,389,282	\$ (5,025,406)	\$ 2,579,438	\$ 727,375

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 10 – Commitments (cont'd)

There was no significant reduction in insurance coverage by major categories of risk from fiscal year 2019 to 2020. There were no settlements that exceeded insurance coverage for the three prior fiscal years ended June 30, 2019, June 30, 2018, and June 30, 2017.

Soboba Settlement Act

The District is a party to the Soboba Settlement Act (Act). This Act was signed into Law by the President of the United States of America on July 31, 2008 and approved the Settlement Agreement between the Soboba Band of Luiseño Indians; the United States of America (as trustee for the Soboba Tribe); the Lake Hemet Municipal Water District (LHMWD), the Metropolitan Water District of Southern California (MWD), and the District. The Soboba Tribe negotiated a water rights claim with these local water districts for the Tribe's lost water resources from springs and creeks on its reservation caused by construction of the San Jacinto Tunnel by MWD, and by construction of Lake Hemet by the LHMWD. Notice regarding the statement of findings for the act was published in the Federal Register on November 28, 2011 and the Settlement Agreement became enforceable.

The Settlement Agreement provides that:

- a) The Tribe shall have a senior right to 9,000-acre feet of water each year;
- b) The local agencies shall develop a groundwater management plan (and a committee to operate that plan);
- c) The District shall contract with MWD for a long-term water supply agreement to bring 7,500-acre feet of additional imported settlement water into the area each year to meet the current and future needs;
- d) The local agencies shall construct facilities to bring in the additional water and recharge it into the groundwater basin;
- e) The groundwater management plan is to include arrangements between the municipal pumpers in the area (LHMWD, the cities of Hemet and San Jacinto, and the District) regarding limitations on pumping from the groundwater basin;
- f) The federal government shall provide some funding for compliance with the agreement; and,
- g) MWD and the District will transfer land that each agency owns to the Tribe in full satisfaction of the tribe's damages because of construction of the San Jacinto Tunnel.

The District's share for the construction of the facilities and use of Tribe's water is estimated to be \$8,966,222. The District and local agencies established a financing plan for the construction costs of the facilities. This plan is based upon the repayment schedule for the 2008H COP (while the 2008H COP has been refunded, it does not change the Soboba repayment schedule) and requires the local agencies to contribute towards principal payments totaling \$12,998,778 and interest payments at their proportionate share. All amounts paid or accrued relating to the financing plan are recorded on the District's books.

In association with this settlement agreement, the stipulated judgment required that a watermaster be established to develop and implement a groundwater management plan and administer the provisions of the judgment. The Hemet-San Jacinto Watermaster (Watermaster) was established on April 18, 2013 and began operations in June 2013. Prior to formation of the Watermaster, the local agencies established an interim plan for imported water deliveries from MWD for in-lieu and replenishment water. The local agencies have agreed that the District will continue to purchase and deliver in-lieu and replenishment settlement water and bill the agencies directly on behalf of the Watermaster. The District did not have any receivables or outstanding billings of imported settlement water deliveries as of June 30, 2020.

Favorable weather and snowpack conditions in the last quarter of calendar year 2019 and the first quarter of 2020 resulted in an abundance of water supply. During this period, 14,330-acre feet of water was available for recharge to meet the calendar year 2019 required settlement obligation of 7,500-acre feet. In the first half of calendar 2020, the District imported 6,467-acre feet for recharge, leaving a balance of 1,033-acre feet to meet the 7,500-acre feet obligation for imported settlement water. The District's share of imported settlement water recorded in fiscal year 2020 was 7,008-acre feet.

EASTERN MUNICIPAL WATER DISTRICT

Notes to Financial Statements June 30, 2020

NOTE 10 – Commitments (cont'd)

In June 2013, the District established a methodology for valuing its share of the native groundwater in the Hemet-San Jacinto Groundwater Basin, including additions and withdrawals. The District recorded \$16,179,802 in water inventory for the fiscal year ended June 30, 2020. The District's methodology identifies various water layers in the basin and assigns a zero-dollar value to native water, with additions of imported settlement water valued at purchased cost and withdrawals valued at a weighted average cost of all inventory layers. The following table illustrates the changes in water inventory for the fiscal year ended June 30, 2020.

	Beginning Balance	Additions	Reductions	Ending Balance
	June 30, 2019	June 30, 2019	June 30, 2019	June 30, 2020
Acre feet	84,969	14,224	(7,360)	91,833
Dollar value	\$ 11,993,048	\$ 5,220,935	\$ (1,034,181)	\$ 16,179,802

Special Funding District Bonds

These bonds are not direct liabilities of the District, and their payment is secured by valid liens on certain lands. Reserves have been established from the bond proceeds to meet delinquencies, should they occur. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the Bonds. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay those delinquencies out of any other available funds. The District acts solely as an agent for those paying assessments or special taxes and the bondholders. The Special Funding District Bonds outstanding at June 30, 2020 was \$214,935,566. These are not included in the District's financial statements.

NOTE 11 - Contingencies

The District is a defendant in various legal actions. Management believes that the ultimate resolution of these actions will not have a significant effect on the District's financial position or results of operations.

NOTE 12 - Santa Ana Watershed Project Authority

The District became a member of the Santa Ana Watershed Project Authority (SAWPA) in September 1984. SAWPA was formed in 1975, pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California relating to the joint exercise powers common to public agencies. The purpose of SAWPA is to undertake projects for water quality control and protection and pollution abatement in the Santa Ana Watershed. The authority is governed by a 5-member Commission, consisting of one member from each of the five-member agencies; an alternate from each member agency is also designated. The Commission members select a Commissioner and an alternate.

According to the latest available audited financial statements, as of June 30, 2019 SAWPA had total assets of \$176,927,279 and total net assets of \$71,599,476. SAWPA Financial Statements can be obtained by contacting SAWPA at 11615 Sterling Avenue, Riverside, CA 92503 or at www.sawpa.org. The District does not have a measurable equity interest in SAWPA.

NOTE 13 – Advances from Developers

The District receives deposits from developers in advance to cover various costs for both sewer and water related projects. At June 30, 2020, the amount of refundable deposits was \$27,724,430. When a project is closed, the developer is refunded only the amount remaining after offsetting all accumulated construction in progress costs. If costs exceed the deposit amount during the project, the developer is billed for additional deposits.



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Required Supplementary Information

Section



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EASTERN MUNICIPAL WATER DISTRICT

Required Supplementary Information June 30, 2020

Schedule of Changes in Net Pension Liability and Related Ratios Last Ten Fiscal Years*

Measurement Period	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
Total Pension Liability						
Service Cost	\$ 9,193,622	\$ 8,950,991	\$ 8,944,792	\$ 7,843,422	\$ 7,679,279	\$ 7,775,568
Interest on total pension liability	32,144,217	30,364,075	28,922,504	27,711,744	26,241,865	24,817,574
Difference between Expected and Actual Experience	5,259,636	3,493,286	(3,044,287)	(377,219)	(117,683)	-
Changes of Assumptions	-	(3,617,710)	24,934,841	-	(6,714,237)	-
Benefit Payments, Including Refunds of Employee Contributions	(20,813,982)	(18,783,862)	(16,384,470)	(15,077,250)	(13,746,546)	(13,419,729)
Net Change in Total Pension Liability	25,783,493	20,406,780	43,373,380	20,100,697	13,342,678	19,173,413
Total Pension Liability - Beginning	450,120,011	429,713,231	386,339,851	366,239,154	352,896,476	333,723,063
Total Pension Liability - Ending (a)	<u>\$ 475,903,504</u>	<u>\$ 450,120,011</u>	<u>\$ 429,713,231</u>	<u>\$ 386,339,851</u>	<u>\$ 366,239,154</u>	<u>\$ 352,896,476</u>
Plan Fiduciary Net Position						
Contributions - Employer	\$ 12,446,688	\$ 10,748,951	\$ 9,699,290	\$ 8,782,080	\$ 8,161,529	\$ 7,786,103
Contributions - Employee	4,054,435	4,437,439	4,294,049	4,187,293	4,204,174	4,510,815
Net Investment Income	20,890,658	25,160,942	30,717,223	1,420,440	6,028,932	40,103,890
Benefit Payments, Including Refunds of Employee Contributions	(20,813,982)	(18,783,862)	(16,384,470)	(15,077,250)	(13,746,546)	(13,419,729)
Net Plan to Plan Resource Movement	-	(736)	2,059	-	-	-
Administrative Expense	(226,454)	(462,980)	(397,425)	(164,570)	(303,937)	-
Other Miscellaneous Income(Expense) ¹	736	(879,206)	-	-	-	-
Net Change in Fiduciary Net Position	16,352,081	20,220,548	27,930,726	(852,007)	4,344,152	38,981,079
Plan Fiduciary Net Position - Beginning ²	317,330,755	297,110,207	269,179,481	270,031,488	265,687,336	226,706,257
Plan Fiduciary Net Position - Ending (b)	<u>\$ 333,682,836</u>	<u>\$ 317,330,755</u>	<u>\$ 297,110,207</u>	<u>\$ 269,179,481</u>	<u>\$ 270,031,488</u>	<u>\$ 265,687,336</u>
Plan Net Pension Liability - Ending (a) - (b)	<u>\$ 142,220,668</u>	<u>\$ 132,789,256</u>	<u>\$ 132,603,024</u>	<u>\$ 117,160,370</u>	<u>\$ 96,207,666</u>	<u>\$ 87,209,140</u>
Pension Liability	70.12%	70.50%	69.14%	69.67%	73.73%	75.29%
Covered Payroll	\$ 53,670,440	\$ 52,372,367	\$ 53,441,059	\$ 51,405,543	\$ 50,202,213	\$ 48,184,720
Plan Net Pension Liability as a Percentage of Covered Payroll	264.99%	253.55%	248.13%	227.91%	191.64%	180.99%

*Fiscal Year 2015 was the first year of implementation, therefore, only six years are shown above.

¹ During Fiscal Year 2017-18, as a result of GASB No. 75, Accounting and Financial Reporting for Postemployment Benefit Plan Other than Pensions, CalPERS reported its proportionate share of activity related to postemployment benefits for participation in the State of California's agent OPEB plan. Accordingly, CalPERS recorded a one-time expense as a result of the adoption of GASB 75. Additionally, CalPERS employees participated in various State of California agent pension plans and during Fiscal Year 2017-2018, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting & Financial Reporting for Pensions.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies to voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

EASTERN MUNICIPAL WATER DISTRICT

Required Supplementary Information June 30, 2020

Schedule of Pension Plan Contributions Last Ten Fiscal Years*

Fiscal Year	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015
Actuarially Determined Contribution	\$ 14,572,035	\$ 12,446,689	\$ 10,748,951	\$ 9,699,290	\$ 8,782,080	\$ 8,160,464
Contributions in Relation to the Actuarially Determined Contribution	(14,572,035)	(12,446,689)	(10,748,951)	(9,699,290)	(8,782,080)	(8,160,464)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 56,295,602	\$ 53,670,440	\$ 52,372,367	\$ 53,441,059	\$ 51,405,543	\$ 50,202,213
Contributions as a Percentage of Covered Payroll	25.88%	23.19%	20.52%	18.15%	17.08%	16.26%

*Fiscal Year 2015 was the first year of implementation, therefore, only six years are shown above.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2019-20 were from the June 30, 2017 public agency valuations.

Actuarial Cost Method	Entry Age Normal Cost
Amortization Method/Period	20-year period with a 5-year ramp-up/ramp down in accordance with CalPERS Board policy. ¹
Asset Valuation Method	Market Value of Assets ¹
Inflation	2.625%
Salary Increase	Varies by entry age and service
Payroll Growth	2.875%
Investment Rate of Return	7.25%, net of Pension Plan Investment Expenses, includes inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period 1997 to 2011. Pre-retirement and Post-retirement mortality rates include twenty years of projected mortality improvement using Scale BB published by the Society of Actuaries.

¹ For details, see June 30, 2017 Funding Valuation Report

EASTERN MUNICIPAL WATER DISTRICT

Required Supplementary Information June 30, 2020

Schedule of Changes in Net OPEB Liability and Related Ratios During the Measurement Period*

Measurement Period	2019	2018	2017
Service Cost	\$ 3,248,883	\$ 3,154,255	\$ 2,947,902
Interest	7,945,843	7,509,723	7,081,960
Differences between expected and actual experience	(7,012,819)	-	-
Changes of assumptions	(5,792,972)	-	-
Benefit Payments, Including Refunds of Member Contributions	(4,674,792)	(4,381,840)	(3,868,785)
Net Change in Total OPEB Liability	(6,285,857)	6,282,138	6,161,077
Total OPEB Liability - Beginning	112,600,561	106,318,423	100,157,346
Total OPEB Liability - Ending (a)	<u>\$ 106,314,704</u>	<u>\$ 112,600,561</u>	<u>\$ 106,318,423</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 19,240,938	\$ 17,947,401	\$ 18,111,235
Net Investment Income	4,177,706	3,861,399	3,066,258
Benefit Payments, Including Refunds of Member Contributions	(4,674,792)	(4,381,840)	(3,868,785)
Administrative Expenses	(14,762)	(26,780)	(16,558)
Other Expense	-	(50,818)	-
Net Change in Plan Fiduciary Net Position	\$ 18,729,090	\$ 17,349,362	\$ 17,292,150
Plan Fiduciary Net Position - Beginning	55,749,350	38,399,988	21,107,838
Plan Fiduciary Net Position - Ending (b)	<u>\$ 74,478,440</u>	<u>\$ 55,749,350</u>	<u>\$ 38,399,988</u>
Net OPEB Liability - Ending (a) - (b)	<u>\$ 31,836,264</u>	<u>\$ 56,851,211</u>	<u>\$ 67,918,435</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	70.1%	49.5%	36.1%
Covered Employee Payroll ¹	\$ 52,102,650	\$ 50,222,638	\$ 50,161,738
Net OPEB Liability as a Percentage of Covered Payroll			
Employee Payroll	61.1%	113.2%	135.4%

*Fiscal Year 2018 was the first year of implementation, therefore, only three years are shown above.

¹ Not based on measure of pay.

EASTERN MUNICIPAL WATER DISTRICT

Required Supplementary Information June 30, 2020

Schedule of OPEB Contributions Last Ten Fiscal Years*

Fiscal Year Ended June 30	2020	2019	2018
Actuarially Determined Contribution	\$ 6,566,657	\$ 10,934,835	\$ 10,833,584
Contributions in Relation to ADC	19,006,063	19,240,938	17,947,401
Contribution Deficiency (Excess)	<u>\$ (12,439,406)</u>	<u>\$ (8,306,103)</u>	<u>\$ (7,113,817)</u>
Covered Employee Payroll ¹	\$ 52,102,650	\$ 50,222,638	\$ 50,161,738
Contributions as a Percentage of Covered Payroll	36.48%	38.31%	35.78%

*Fiscal Year 2018 was the first year of implementation, therefore, only three years are shown above.

¹ Not based on measure of pay.

EASTERN MUNICIPAL WATER DISTRICT

Required Supplementary Information June 30, 2020

Notes to Schedule

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2020 were from the June 30, 2019 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal																				
Amortization Method/Period	Level dollar amortization method over 13 years																				
Asset Valuation Method	Market value																				
Inflation	2.50%																				
Payroll Growth	2.75% per annum plus CalPERS merit scale																				
Investment Rate of Return	7.00% per annum. Assumes investing in California Employers' Retiree Benefit Trust asset allocation Strategy 1.																				
Healthcare cost-trend rates	Medical costs are adjusted in future years by the following trends: <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Year</u></th> <th style="text-align: left;"><u>Trend</u></th> </tr> </thead> <tbody> <tr><td>2020</td><td>6.50%</td></tr> <tr><td>2021</td><td>6.25%</td></tr> <tr><td>2022</td><td>6.00%</td></tr> <tr><td>2023</td><td>5.75%</td></tr> <tr><td>2024</td><td>5.50%</td></tr> <tr><td>2025</td><td>5.25%</td></tr> <tr><td>2026</td><td>5.00%</td></tr> <tr><td>2027</td><td>4.75%</td></tr> <tr><td>2028+</td><td>4.50%</td></tr> </tbody> </table>	<u>Year</u>	<u>Trend</u>	2020	6.50%	2021	6.25%	2022	6.00%	2023	5.75%	2024	5.50%	2025	5.25%	2026	5.00%	2027	4.75%	2028+	4.50%
<u>Year</u>	<u>Trend</u>																				
2020	6.50%																				
2021	6.25%																				
2022	6.00%																				
2023	5.75%																				
2024	5.50%																				
2025	5.25%																				
2026	5.00%																				
2027	4.75%																				
2028+	4.50%																				
Retirement Age	According to the retirement rates under the 2017 CalPERS pension valuation. According to the following retirement tables: Employees hired before 11/04/2010: 2.5%@55 (Tier 1) Employees hired on or after 11/04/2010: 2%@55 (Tier 2) Employees hired on or after 01/01/2013: Classic: 2%@55 New Member: 2%@62 Terminated employees with vested benefits are assumed to retire at age 60.																				
Mortality	Mortality Table using Scale MP-2019, Continuing Survivor Headcount Weighted Mortality Table using Scale MP-2019 and SOA Pub-2010 Disabled Headcount Weighted Mortality Table using Scale MP-2019. Rates updated from the 2014 CalPERS experience study																				

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.



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Statistical Section



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STATISTICAL SECTION

This section of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the accompanying financial statements, notes disclosures, and required supplementary information says about the District's overall financial health.

[Contents](#)

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the District's ability to generate revenues.

Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other agencies.

Operating Information

These schedules contain information about the District's operations and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

Sources

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

**Eastern Municipal Water District
Net Position by Component
Last Ten Fiscal Years**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015¹</u>	<u>2016</u>	<u>2017</u>	<u>2018²</u>	<u>2019</u>	<u>2020</u>
Net investment in capital assets	\$ 1,182,870,831	\$ 1,231,275,509	\$ 1,239,753,130	\$ 1,300,393,466	\$ 1,370,476,337	\$ 1,403,875,420	\$ 1,338,331,638	\$ 1,349,982,180	\$ 1,389,284,069	\$ 1,407,118,856
Restricted for debt service/covenants	65,433,313	64,333,290	73,268,230	70,625,613	74,689,785	80,348,698	71,207,358	80,159,371	86,400,881	94,665,692
Restricted for construction	127,083,266	99,513,601	56,375,249	45,199,054	40,347,436	38,265,888	60,632,573	23,827,435	6,161,035	28,953,913
Unrestricted	<u>136,478,455</u>	<u>126,867,540</u>	<u>148,512,588</u>	<u>134,353,793</u>	<u>(7,842,690)</u>	<u>(1,974,861)</u>	<u>62,360,074</u>	<u>94,848,668</u>	<u>154,920,394</u>	<u>210,932,690</u>
Total net position	<u>\$ 1,511,865,865</u>	<u>\$ 1,521,989,940</u>	<u>\$ 1,517,909,197</u>	<u>\$ 1,550,571,926</u>	<u>\$ 1,477,670,868</u>	<u>\$ 1,520,515,145</u>	<u>\$ 1,532,531,643</u>	<u>\$ 1,548,817,654</u>	<u>\$ 1,636,766,379</u>	<u>\$ 1,741,671,151</u>
% Increase	0.9%	0.7%	-0.3%	2.2%	-4.7%	2.9%	0.8%	1.1%	5.7%	6.4%

Notes:

1. The District implemented GASB Statement Nos. 68 and 71 for the fiscal year ended June 30, 2015. As a result of this GASB implementation, the balance in net position includes a net prior period adjustment of (\$103,259,883).
2. The District implemented GASB Statement No. 75 for the fiscal year ended June 30, 2018. As a result of this GASB implementation, the balance in net position includes a net prior period adjustment of (\$16,478,890).

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District
Changes in Net Position
Last Ten Fiscal Years

Fiscal Year	Operating Revenues		Operating Expenses		Operating Loss	Non-operating Revenues/ (Expenses)	Income Before Capital Contributions	Capital Contributions ¹	Change in Net Position
	Water	Wastewater	Water	Wastewater					
2011	\$ 102,009,545	\$ 67,114,654	\$ 137,981,887	\$ 98,467,509	\$ (67,325,197)	\$ 41,208,043	\$ (26,117,154)	\$ 39,530,173	\$ 13,413,019
2012	104,741,242	71,118,648	148,531,957	107,780,498	(80,452,565)	33,845,761	(46,606,804)	56,730,879	10,124,075
2013	112,456,804	74,633,171	154,950,442	108,169,114	(76,029,581)	45,528,065	(30,501,516)	30,446,825	(54,691)
2014	122,724,175	79,225,506	163,774,490	111,720,396	(73,545,205)	57,381,626	(16,163,579)	48,826,308	32,662,729
2015	117,295,152	83,513,268	162,871,146	116,781,896	(78,844,622)	49,992,435	(28,852,187)	59,211,012	30,358,825
2016	112,457,426	93,833,665	154,989,658	121,778,812	(70,477,379)	75,675,617	5,198,238	37,646,039	42,844,277
2017	120,870,937	100,328,285	167,605,351	124,278,289	(70,684,418)	61,439,040	(9,377,050)	21,261,876	12,016,498
2018	135,428,866	105,078,613	180,352,180	124,831,968	(64,676,669)	76,036,077	11,359,408	21,405,493	32,764,901
2019	132,847,172	109,072,232	176,569,992	126,117,304	(60,767,892)	92,051,786	31,283,894	56,664,831	87,948,725
2020	\$ 141,303,051	\$ 115,603,869	\$ 186,515,757	\$ 134,933,642	\$ (64,542,479)	\$ 84,902,074	\$ 20,359,595	\$ 84,545,177	\$ 104,904,772

Notes:

1. Fluctuations in contributed capital are due to the volume of construction activity and project close outs in a fiscal year.

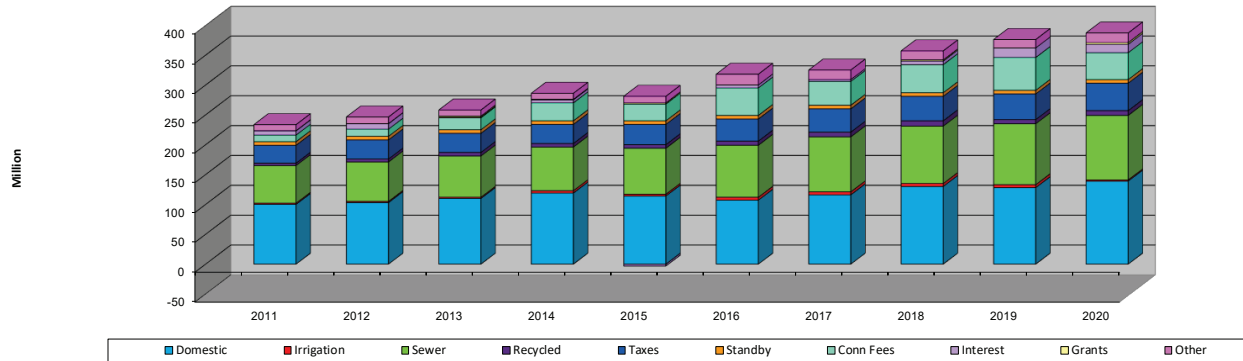
Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District
Revenues by Source
Last Ten Fiscal Years

Fiscal Year	Domestic Water Sales	% of Total	Ag & Irrig Water Sales	% of Total ¹	Sewer Service Charges	% of Total	Recycled Water Sales	% of Total	Taxes & Assmnts	% of Total	Standby Assmnts	% of Total	Connect Fees	% of Total	Interest Income	% of Total	Grants	% of Total	Other	% of Total	Total Revenues
2011	100,198,290	42.8%	1,811,255	0.8%	62,609,731	26.8%	4,504,923	1.9%	30,354,685	13.0%	5,569,818	2.4%	10,815,294	4.6%	7,553,352	3.2%	517,888	0.2%	10,117,631	4.3%	234,052,867
2012	103,226,203	41.9%	1,515,039	0.6%	65,983,462	26.8%	5,135,186	2.1%	31,730,750	12.9%	5,600,661	2.3%	12,150,826	4.9%	9,208,523	3.7%	373,285	0.2%	11,533,511	4.7%	246,457,446
2013	110,468,194	42.8%	1,988,610	0.8%	68,957,128	26.7%	5,676,043	2.2%	32,555,228	12.6%	5,635,153	2.2%	20,364,185	7.9%	831,935	0.3%	2,052,613	0.8%	9,579,321	3.7%	258,108,410
2014	118,695,153	41.5%	4,029,022	1.4%	73,100,086	25.6%	6,125,420	2.1%	32,578,837	11.4%	5,700,591	2.0%	30,149,861	10.5%	4,923,583	1.7%	969,474	0.3%	9,622,670	3.4%	285,894,697
2015	113,859,511	40.8%	3,435,641	1.2%	77,120,505	27.7%	6,392,763	2.3%	34,100,580	12.2%	5,735,466	2.1%	28,307,625	10.1%	(2,593,627)	-0.9%	1,717,926	0.6%	10,834,613	3.9%	278,911,003
2016	107,319,708	33.7%	5,137,718	1.6%	87,184,856	27.4%	6,648,809	2.1%	36,876,790	11.6%	5,784,242	1.8%	45,715,784	14.4%	5,056,957	1.6%	-	0.0%	18,313,734	5.8%	318,038,598
2017	115,796,435	35.6%	5,074,502	1.6%	92,536,116	28.4%	7,792,169	2.4%	38,578,024	11.9%	5,831,357	1.8%	40,565,197	12.5%	2,650,750	0.8%	131,672	0.0%	16,439,820	5.1%	325,396,042
2018	130,596,237	36.6%	4,832,629	1.4%	96,049,786	26.9%	9,028,827	2.5%	40,802,919	11.4%	5,769,853	1.6%	46,924,875	13.2%	6,033,078	1.7%	1,646,062	0.5%	15,092,302	4.2%	356,776,568
2019	127,831,377	34.0%	5,015,795	1.3%	102,037,610	27.2%	7,034,622	1.9%	43,088,264	11.5%	5,828,077	1.6%	54,665,900	14.5%	15,924,001	4.2%	272,250	0.1%	14,119,698	3.8%	375,817,594
2020	139,470,921	36.0%	1,832,130	0.5%	107,541,964	27.8%	8,061,905	2.1%	46,422,441	12.0%	5,779,756	1.5%	45,186,191	11.7%	13,617,212	3.5%	2,715,243	0.7%	16,532,716	4.3%	387,160,479



Notes:
1. Sales for Ag & Irrigation Water decreased by approximately 1% in 2020 due to the decrease in the demand for base production rights ground water delivered to LHMWD

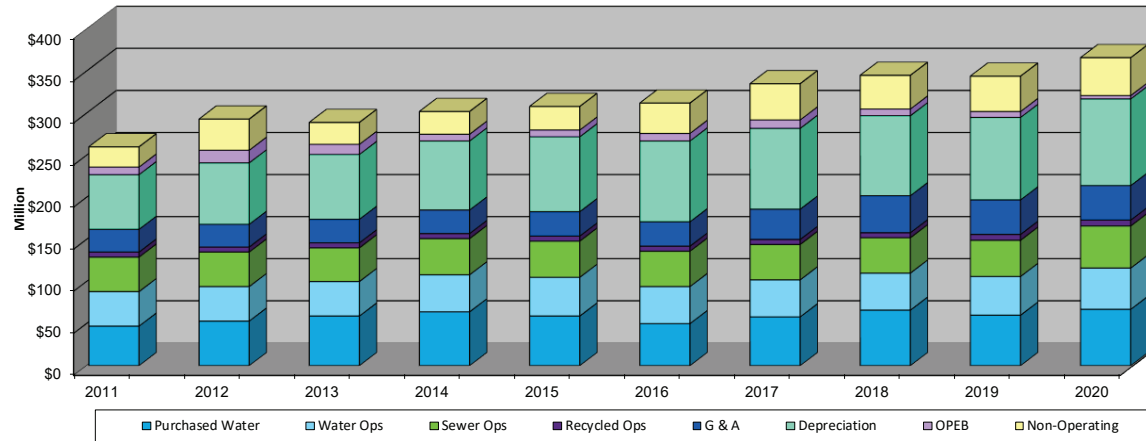
Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District
Expenses by Function
Last Ten Fiscal Years

Fiscal Year	Purchased Water	% of Total	Water Operations	% of Total	Sewer Operations	% of Total	Recycled Water Operations	% of Total	General & Admin ¹	% of Total	Depr. & Amort	% of Total	Net OPEB	% of Total	Total Non-Operating Expenses	% of Total	Total Expenses
2011	46,489,850	17.9%	41,364,910	15.9%	41,247,883	15.9%	6,103,502	2.3%	26,707,578	10.3%	65,354,991	25.1%	9,180,682	3.5%	23,720,625	9.1%	260,170,021
2012	52,697,993	18.0%	40,789,231	13.9%	41,308,806	14.1%	5,748,205	2.0%	27,112,598	9.3%	73,369,622	25.0%	15,286,000	5.2%	36,751,795	12.5%	293,064,250
2013	58,445,847	20.3%	40,994,915	14.2%	40,279,734	14.0%	5,992,260	2.1%	28,392,519	9.8%	77,162,281	26.7%	11,852,000	4.1%	25,490,370	8.8%	288,609,926
2014	63,850,688	21.1%	44,193,507	14.6%	42,710,741	14.1%	5,992,372	2.0%	28,352,049	9.4%	82,037,529	27.2%	8,358,000	2.8%	26,563,390	8.8%	302,058,276
2015	59,040,009	19.2%	45,691,510	14.8%	42,743,947	13.9%	6,101,759	2.0%	28,677,026	9.3%	88,830,791	28.9%	8,568,000	2.8%	28,110,148	9.1%	307,763,190
2016	50,334,462	16.1%	43,582,087	13.9%	42,095,206	13.5%	6,287,916	2.0%	29,687,364	9.5%	95,302,858	30.5%	9,478,577	3.0%	36,071,890	11.5%	312,840,360
2017	57,512,425	17.2%	44,089,564	13.2%	42,232,322	12.6%	6,064,944	1.8%	36,283,686	10.8%	95,968,255	28.7%	9,732,444	2.9%	42,757,780	12.8%	334,641,420
2018	65,846,363	19.1%	44,202,187	12.8%	42,110,008	12.2%	6,417,615	1.9%	43,901,997	12.7%	94,853,174	27.5%	7,852,804	2.3%	40,233,012	11.6%	345,417,160
2019	60,469,414	17.6%	46,398,474	13.5%	42,748,806	12.4%	6,682,894	1.9%	41,420,672	12.0%	97,743,963	28.4%	7,223,073	2.1%	41,846,404	12.1%	344,533,700
2020	67,025,558	18.3%	49,180,247	13.4%	49,780,561	13.6%	7,371,736	2.0%	40,521,610	11.0%	103,217,866	28.1%	4,351,821	1.2%	45,351,485	12.4%	366,800,884



Notes:

1. The increase in fiscal year 2017 includes a \$4.6 million increase in unallocated pension expense. The higher general and administrative expense in fiscal year 2018 includes a \$6.2 million increase in pension expense due to the change in the actuarial discount rate assumption.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District Water Produced and Consumed and Wastewater Treated Last Ten Fiscal Years

Fiscal Year	Gallons Produced ^{1,6,7}				Water					Gallons of Wastewater Treated	Total Direct Rate		
	Purchased	Wells	Desalters	Total	Gallons Consumed			Unbilled			Base Rate ^{2,5}	Usage Rate ^{3,5}	Sewer ⁴
2011	21,611	5,220	1,943	28,774	25,958	857	26,815	1,959	6.8%	16,805	10.52	48.26	22.90
2012	22,365	5,244	1,783	29,392	27,154	690	27,844	1,548	5.3%	16,425	10.52	47.50	23.96
2013	23,709	5,683	1,909	31,301	28,078	860	28,938	2,363	7.6%	16,363	10.52	49.92	24.72
2014	25,057	6,192	1,820	33,069	28,982	1,820	30,802	2,267	6.9%	16,389	10.77	52.50	25.90
2015	22,246	3,789	2,427	28,462	26,040	1,449	27,489	971	3.4%	16,334	11.16	53.76	27.01
2016	19,016	4,820	2,285	26,121	21,608	2,086	23,695	2,426	9.3%	15,483	11.59	57.56	30.12
2017	21,366	5,125	2,194	28,685	23,618	1,951	25,569	3,117	10.9%	15,812	11.83	56.70	31.47
2018	22,908	4,901	2,138	29,947	26,429	1,711	28,140	1,806	6.0%	15,538	11.86	57.34	32.19
2019	21,096	4,699	2,463	28,258	23,022	1,770	24,792	3,466	12.3%	16,284	12.78	62.82	33.65
2020	22,453	3,526	2,472	28,450	24,923	556	25,479	2,971	10.4%	16,932	13.42	62.52	34.92

Notes:

- Gallons are presented in millions.
- Rate shown is based on the daily fixed charge for meters up to and including 1" through 2017. Effective 2018, the rate shown is for meters up to and including 3/4".
- Rate shown is an average rate for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
- Rate shown is an average rate for one month of service. In February 2013, a new block rate sewer methodology was implemented to compliment the domestic retail water rate structure. This methodology uses the number of household occupants to better align charges with wastewater system costs based upon flow levels.
- In January 2018, the District revised the daily fixed charge meter factors for all domestic retail customers with meter sizes greater than 3/4".
- Well gallons produced decreased by 25%, (1,412 million gallons), in 2020 due to EMWD purchasing treated water in lieu of operating wells during the months of August 2020-December 2020 as part of the MWD Cyclic Water Program.
- This information does not include recycled water.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District Water and Sewer Rates Last Ten Fiscal Years

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018 ³	2019	2020
Water Rates^{4,5}										
Monthly base rate (meter size)										
<=1"	\$ 10.52	\$ 10.55	\$ 10.52	\$ 10.77	\$ 11.16	\$ 11.62	\$ 11.83	\$ 11.86	\$ 12.60	\$ 13.20
1"								16.12	17.10	17.95
1 1/2"	27.68	27.76	27.68	28.29	29.50	30.50	31.03	44.71	47.40	49.63
2"	51.40	51.55	51.40	52.62	54.45	56.73	57.79	69.35	73.50	76.96
3"	171.25	171.72	171.25	175.20	181.59	189.10	192.54	135.05	143.10	149.95
4"	270.40	271.15	270.40	276.49	286.83	298.60	303.86	208.96	221.40	231.92
6"	505.53	506.91	505.53	517.08	536.25	558.15	568.18	414.28	438.90	459.76
8"	633.28	635.01	633.28	647.88	671.60	699.06	712.05	660.65	699.90	733.26
10"	-	-	-	-	-	-	-	989.15	1,047.90	1,097.84
12"	-	-	-	-	-	-	-	1,390.04	1,472.40	1,542.55
Usage rate (per billing unit)¹	\$ 48.26	\$ 47.50	\$ 49.92	\$ 52.50	\$ 53.76	\$ 57.56	\$ 56.70	\$ 57.34	\$ 62.82	\$ 62.52
Sewer Rates (avg per month)²	\$ 22.90	\$ 23.96	\$ 24.72	\$ 25.90	\$ 27.01	\$ 30.12	\$ 31.47	\$ 32.19	\$ 33.65	\$ 34.92

Notes:

1. Rate shown is an average for 20 billing units. A billing unit is 100 cubic feet of water or 748 gallons.
2. In February 2013, a new block rate sewer methodology was implemented, which uses number of household occupants. Previously, the District charged all customers a fixed daily service rate for sewer service for each of its 5 sewer service areas. The average per month is calculated as a weighted average monthly rate per customer.
3. In January 2018, the District revised the daily fixed charge meter factors for all domestic retail customers.
4. Rates are adopted by the Board of Directors annually and become effective on the date of adoption or per Board direction.
5. This information does not include recycled water.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District Customers by Water Service Type Last Ten Fiscal Years

Fiscal Year	Treated and Untreated Water							Recycled	Total	
	Residential & Non-Residential ²	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural			
2011 ¹	131,308	3,240	142	596	327	2,285	670	138,568	265	138,833
2012	132,080	3,272	144	625	353	2,310	694	139,478	283	139,761
2013	133,279	3,308	142	646	373	2,344	692	140,784	297	141,081
2014	134,656	3,347	136	679	426	2,412	721	142,377	316	142,693
2015	136,425	3,410	138	665	412	2,446	759	144,255	356	144,611
2016	138,247	3,472	137	663	432	2,484	790	146,225	379	146,604
2017	140,332	3,573	136	645	449	2,526	812	148,473	420	148,893
2018	143,017	3,617	145	662	510	2,496	227	150,674	511	151,185
2019	145,484	3,787	148	647	533	2,575	204	153,378	575	153,953
2020	147,843	3,881	162	651	565	2,610	206	155,918	626	156,544

Treated and Untreated Water Service Type by Customer Category Fiscal Year 2020

	Residential & Non-Residential ²	Commercial	Industrial	Public Agency	Construction & Temporary	Irrigation	Agricultural	Total
Domestic	147,832	3,878	161	616	565	2,607	114	155,773
Agricultural	11	3	1	5	-	3	92	115
Wholesale	-	-	-	30	-	-	-	30
Total	147,843	3,881	162	651	565	2,610	206	155,918

Note:

1. Decreased amounts are due to level of bank-owned homes relating to the economic downturn and less construction.
2. Effective 1/1/18, Non-Residential customers applies to Landscape accounts only and excludes Commercial, Industrial and Institutional accounts.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District
Largest Domestic Water Customers³
As of June 30, 2020 and June 30, 2011

Rank	Customer Name	2020			2011			
		Annual Water Sales in Acre Feet	Annual Revenues	Percentage	Rank	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	Western Municipal Water District ^{1,2}	1,809	\$ 2,256,909	19.7%	2	1,624	\$ 1,489,015	17.7%
2	City of Perris ¹	1,647	2,165,023	18.9%	1	1,695	1,561,378	18.5%
3	City of Moreno Valley	761	1,382,846	12.1%	4	807	960,189	11.4%
4	Valley-Wide Recreation Park	693	1,319,567	11.5%	5	744	906,620	10.8%
5	Moreno Valley Unified School District	692	1,113,866	9.7%	3	1,001	890,477	10.6%
6	Val Verde Unified School District	437	747,878	6.5%	6	616	706,260	8.4%
7	City of Murrieta	357	666,384	5.8%	7	420	509,701	6.1%
8	Hyde Park Owners	363	629,892	5.5%				
9	County of Riverside	407	567,010	4.9%	9	390	440,357	5.2%
10	City of Hemet ¹	1,792	617,525	5.4%				
	Shadow Mountain Comm. Assoc.				8	413	511,668	6.1%
	Menifee Union School District				10	322	437,214	5.2%
	Total	8,958	\$ 11,466,900			8,032	\$ 8,412,879	
	Total domestic water sales	76,487	\$ 139,470,921			79,662	\$ 100,668,729	
	Percentage of total	11.7%	8.2%			10.1%	8.4%	

Notes:

1. Wholesale customer.
2. Sales relate to Murrieta County Water District customers. This water district was purchased by the Western Municipal Water District.
3. Data includes potable water sales to all non-agricultural customers.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District
Largest Agricultural & Irrigation Water Customers¹
As of June 30, 2020 and June 30, 2011

Rank	Customer Name	2020			2011			
		Annual Water Sales in Acre Feet	Annual Revenues	Percentage	Rank	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	Metropolitan Water District	268	\$ 355,699	29.1%	3	118	\$ 110,774	14.0%
2	Pauline Doan	209	278,226	22.8%	2	113	114,130	14.5%
3	John Bootsma Dairy	204	156,393	12.8%				
4	C & R Farms	139	101,273	8.3%	5	186	91,363	11.5%
5	HP Mobile Estates	66	87,762	7.2%	8	60	50,183	6.3%
6	Sunsui Farms	80	59,566	4.9%				
7	Expressway Dairy	61	48,018	3.9%				
8	Moon Valley Nursery	34	45,584	3.7%				
9	Cottonwood Dairy	59	44,959	3.7%				
10	Demler Egg Ranch	59	44,268	3.6%	7	105	55,991	7.1%
	Mc Anally Egg Enterprises				1	128	130,003	16.5%
	Abacherli Dairy				4	97	97,941	12.4%
	Valley Wide Recreation & Park				6	77	64,197	8.1%
	MCM Poultry				9	43	43,743	5.5%
	Hein Hettinga Dairy				10	68	32,791	4.1%
	Total	1,179	\$ 1,221,748			995	\$ 791,116	
	Total ag. & irrigation water sales	1,706	\$ 1,832,130			2,629	\$ 1,811,255	
	Percentage of total	69.1%	66.7%			37.8%	43.7%	

Notes:

1. The District has a number of irrigation water rates depending upon service area and whether deliveries are scheduled or unscheduled.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District
Largest Recycled Water Customers¹
As of June 30, 2020 and June 30, 2011

Rank	Customer Name	2020			2011			
		Annual Water Sales in Acre Feet	Annual Revenues	Percentage	Rank	Annual Water Sales in Acre Feet	Annual Revenues	Percentage
1	Valley Wide Recreation Park	871	\$ 511,725	19.0%	10	336	\$ 101,318	4.7%
2	Marvo Holstein	2,787	356,633	13.2%				
3	America Greenworld Inc	668	284,816	10.6%				
4	Pechanga Water Systems	490	260,638	9.7%	8	381	114,837	5.3%
5	Hemet Golf Club Landmark	363	245,355	9.1%	4	353	151,288	7.0%
6	Agri Empire	1,764	233,096	8.7%	2	3,160	225,408	10.5%
7	Dept of Fish and Wildlife	3,550	211,339	7.8%				
8	Rancho Casa Loma	2,477	208,265	7.7%	3	3,665	176,426	8.2%
9	A G Sod Farms	1,551	205,142	7.6%	6	1,899	140,897	6.6%
10	City of Moreno Valley	332	176,777	6.6%	7	385	115,836	5.4%
	Inland Empire Energy Center LLC				1	2,897	868,286	40.5%
	The Golf Club at Rancho California				5	486	146,445	6.8%
	Scott Bros Dairy				9	2,229	106,802	5.0%
	Total	14,853	\$ 2,693,786			15,791	\$ 2,147,543	
	Total recycled water sales	29,191	\$ 8,061,905			28,926	\$ 4,504,923	
	Percentage of total	50.9%	33.4%			54.6%	47.7%	

Notes:

1. The District has a number of recycled water rates depending upon size of pipe, agricultural or non-agricultural usage and level of treatment.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District
Largest Sewer Customers
As of June 30, 2020 and June 30, 2011

Rank	Customer Name	2020		2011		
		Annual Revenues	Percentage	Rank	Annual Revenues	Percentage
1	Pechanga Resort and Casino	\$ 907,878	29.9%	1	\$ 459,486	26.7%
2	The Overlook At Rancho Belago	425,222	14.0%			
3	Murrieta Valley Unified School District	290,215	9.6%	5	129,799	7.5%
4	Val Verde School District	239,463	7.9%	8	121,741	7.1%
5	Hyde Park Owners	237,523	7.8%			
6	Hemet Unified School District	207,743	6.8%			
7	Stonegate at Towngate	206,015	6.8%			
8	S-J Investments Property	185,038	6.1%			
9	Casabella Owner's Association	176,669	5.8%			
10	Westwind Enterprises	157,905	5.2%	3	142,612	8.3%
	Broadstone Vista Apartments			2	246,078	14.3%
	Western States Mobile Home Park			4	140,805	8.2%
	Silverado Apartment Homes			7	126,305	7.3%
	Waterstone at Murrieta Apartments			6	129,534	7.5%
	Sonoma at Mapleton Apartment Homes			9	113,189	6.6%
	Gables Alta Murrieta Apartments			10	111,391	6.5%
	Total	\$ 3,033,671			\$ 1,720,940	
	Total sewer revenue	\$ 107,541,964			\$ 62,840,013	
	Percentage of total revenue	2.8%			2.7%	

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

**Eastern Municipal Water District
Summary of Imported Water Rates
Last Ten Fiscal Years
(dollars per acre-foot)**

	Rates Effective Beginning January	Full Service Domestic	
		Treated	Untreated
2011	Tier 1	744	527
	Tier 2	869	652
2012	Tier 1	794	560
	Tier 2	920	686
2013	Tier 1	847	593
	Tier 2	997	743
2014	Tier 1	890	593
	Tier 2	1,032	735
2015	Tier 1	923	582
	Tier 2	1,055	714
2016	Tier 1	942	594
	Tier 2	1,076	728
2017	Tier 1	979	666
	Tier 2	1,073	760
2018	Tier 1	1,015	695
	Tier 2	1,101	781
2019	Tier 1	1,050	731
	Tier 2	1,136	817
2020	Tier 1	1,078	755
	Tier 2	1,165	842

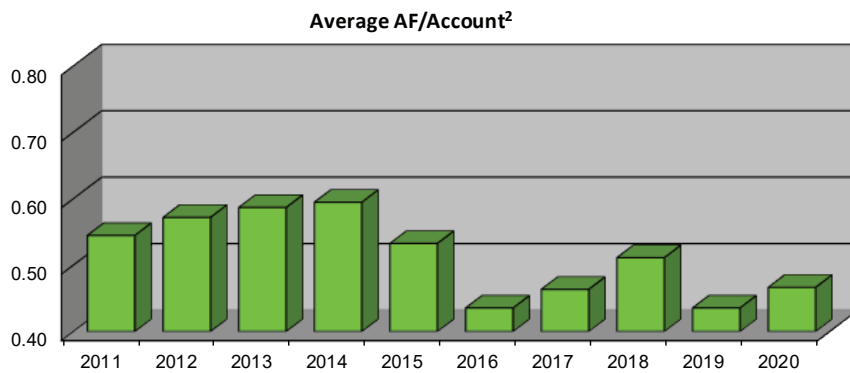
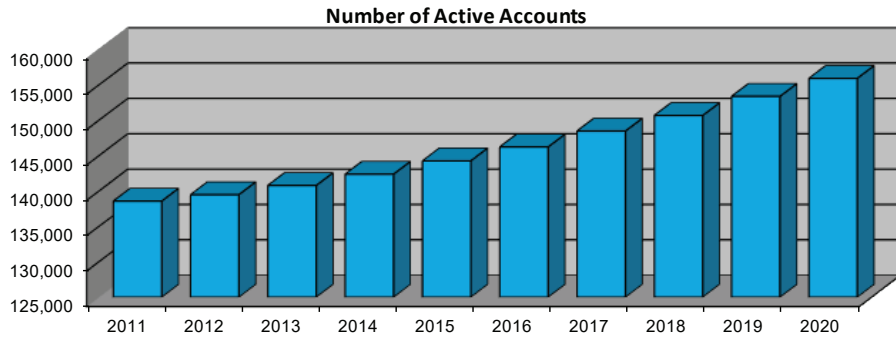
Source: Metropolitan Water District of Southern California (MWD)

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District
Annual Domestic Consumption (AF)
Last Ten Fiscal Years

Fiscal Year	Usage (AF) ¹	Active Accounts	Average AF per Account ²
2011	75,461	138,568	0.54
2012	79,752	139,478	0.57
2013	82,591	140,784	0.59
2014	84,650	142,377	0.59
2015	76,832	144,255	0.53
2016	63,673	146,225	0.44
2017	68,813	148,473	0.46
2018	77,020	150,674	0.51
2019	66,803	153,378	0.44
2020	72,733	155,918	0.47



Notes:

1. Amounts exclude wholesale accounts.
2. Several factors may impact fluctuations in the average AF per account each year including conservation efforts, the level of bank-owned homes relating to the economic downturn, and changes in weather patterns.

Source: Eastern Municipal Water District

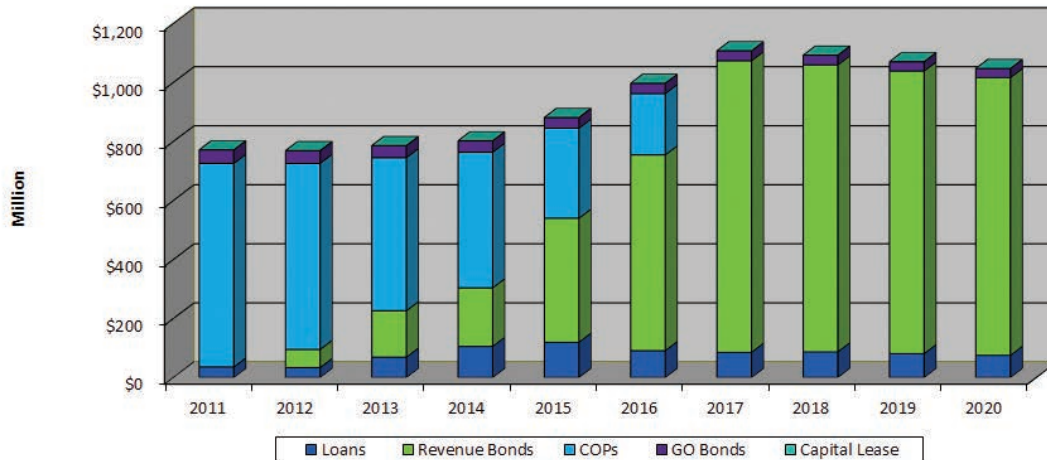
EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District Ratio of Outstanding Debt by Type⁴ Last Ten Fiscal Years

* See Debt Footnotes for dollar amounts

Fiscal Year	Loans	Revenue Bonds ¹	Certificates of Participation ¹	General Obligation Bonds	Capital Lease	Total	Percentage of Personal Income ²	Debt per Capita ³
2011	\$ 35,818,082	\$ -	\$ 689,723,765	\$ 45,481,394	\$ -	\$ 771,023,241	1.18%	1,014
2012	33,651,101	61,452,320	630,227,034	43,145,504	-	768,475,959	1.14%	1,000
2013	68,749,388	157,648,717	518,338,874	40,949,446	-	785,686,425	1.09%	1,011
2014	105,195,668	198,525,127	459,710,090	38,446,800	55,072	801,932,757	1.08%	1,022
2015	119,352,359	420,407,712	305,016,307	35,896,296	41,574	880,714,248	1.15%	1,108
2016	90,787,233	663,582,542	207,389,271	34,920,903	23,752	996,703,701	1.24%	1,240
2017	85,227,888	987,759,455	-	33,905,509	12,782	1,106,905,634	1.29%	1,356
2018	86,719,548	972,307,446	-	32,845,116	1,018	1,091,873,128	1.21%	1,320
2019	80,934,716	957,255,438	-	31,739,723	-	1,069,929,877	1.14%	1,275
2020	\$ 74,961,710	\$ 941,207,959	\$ -	\$ 30,584,330	\$ -	\$ 1,046,753,999	1.05%	1,231



Notes:

- In fiscal year 2017, the District issued six refunding revenue bonds to redeem all outstanding certificates of participation and five refunding revenue bonds. A new series revenue bond was issued to finance the construction of water and sewer capital improvements.
- Based upon Riverside County personal income amounts. The District is located in the County of Riverside.
See the personal income amounts on the Demographic and Economic Statistics schedule. Amounts for prior years are updated with the most recent available information.
- Based upon approximate population of District service area. See the Demographic and Economic Statistics schedule for amounts.
- Details regarding the District's outstanding debt can be found in Note 4 to the Basic Financial Statements.

Source: Eastern Municipal Water District

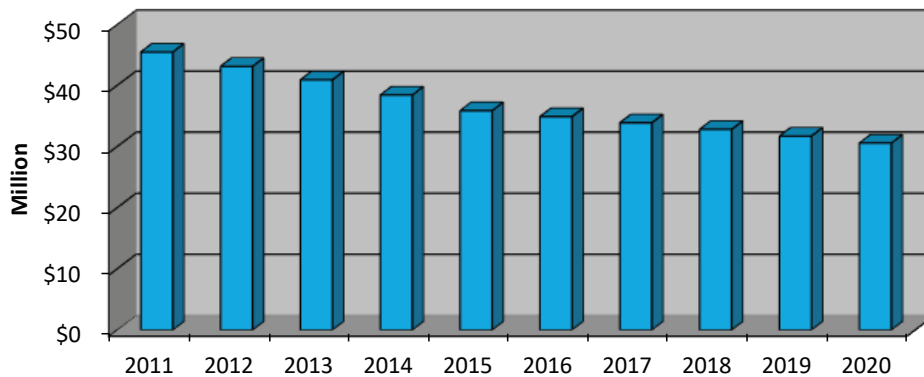
EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District
Ratio of General Bonded Debt Outstanding³
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Assessed Value ¹	Percentage of Assessed Value	Debt per Capita ²
2011	\$ 45,481,394	\$ 54,294,174,863	0.08%	60
2012	43,145,504	53,890,135,705	0.08%	56
2013	40,949,446	53,506,155,585	0.08%	53
2014	38,446,800	55,926,804,094	0.07%	49
2015	35,896,296	61,313,471,497	0.06%	45
2016	34,920,903	66,226,873,815	0.05%	43
2017	33,905,509	70,005,613,492	0.05%	42
2018	32,845,116	74,231,240,058	0.04%	40
2019	31,739,723	79,484,183,867	0.04%	38
2020	\$ 30,584,330	\$ 84,535,646,968	0.04%	36

Total Bonds Outstanding



Notes:

1. Bonds are issued by improvement district, but the amounts shown are for the District's entire service area. Beginning 2016, included District No. 04-5408: EMWD Detachment#2 in the assessed value.
2. Based upon approximate population of the District's entire service area. See the Demographic and Economic Statistics schedule for amounts.
3. Details regarding the District's outstanding debt can be found in Note 4 to the Basic Financial Statements.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT PARITY DEBT SERVICE COVERAGE Last Ten Fiscal Years

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
OPERATING REVENUES:										
Water sales	102,479,984	104,741,242	110,468,195	122,724,175	117,295,152	112,457,426	120,870,937	135,428,866	132,847,172	141,303,051
Sewer service sales	62,840,013	65,983,462	70,945,738	73,100,086	77,120,505	87,184,856	92,536,116	96,049,786	102,037,610	107,541,964
Recycled water	4,504,923	5,135,186	5,676,043	6,125,420	6,392,763	6,648,809	7,792,169	9,028,827	7,034,622	8,061,905
Total operating revenues	169,824,920	175,859,890	187,089,976	201,949,681	200,808,420	206,291,091	221,199,222	240,507,479	241,919,404	256,906,920
OPERATING EXPENSES:										
Water purchases	46,489,850	52,697,993	58,445,847	63,850,688	59,040,009	50,334,462	57,512,425	65,846,363	60,469,414	67,025,558
Water operations	41,364,910	40,789,231	40,994,915	44,193,507	45,691,510	43,582,087	44,089,564	44,202,187	46,398,474	49,180,247
Sewer operations	47,351,385	47,057,011	46,271,994	48,703,113	48,845,706	48,383,122	48,297,266	48,527,623	49,431,700	57,152,297
Other Post Employment Benefits (OPEB) Contribution ¹	-	2,620,589	5,740,000	6,123,000	8,568,000	9,478,577	9,732,444	7,852,804	7,223,073	4,351,821
General & administrative	26,707,578	27,112,598	28,392,519	28,352,049	28,677,026	29,687,364	36,283,686	43,901,997	41,420,672	40,521,610
Total operating expenses	161,913,723	170,277,422	179,845,275	191,222,357	190,822,251	181,465,612	195,915,385	210,330,974	204,943,333	218,231,533
OPERATING INCOME (LOSS)	7,911,197	5,582,468	7,244,701	10,727,324	9,986,169	24,825,479	25,283,837	30,176,505	36,976,071	38,675,387
NON-OPERATING REVENUES:										
Property taxes - general purpose	25,884,964	26,574,300	27,243,491	28,061,489	30,843,713	32,271,305	33,971,127	36,294,389	38,204,912	41,014,090
Standby charges	5,569,818	5,600,661	5,635,153	5,700,591	5,735,466	5,784,242	5,831,357	5,769,853	5,828,077	5,779,756
Water and sewer connection fees	10,815,294	12,150,826	20,364,185	30,149,861	28,307,625	45,715,784	40,565,197	46,924,875	54,665,900	45,186,191
Interest income ²	7,664,191	7,431,966	4,485,217	3,133,313	3,092,643	3,405,039	4,733,897	8,181,973	11,897,412	10,506,376
Grant revenues	16,137,906	22,926,555	12,503,511	5,214,780	3,830,382	2,823,624	6,164,479	3,128,863	27,966,611	34,194,594
Other income/(expense)	1,727,067	(4,563,952)	2,967,319	947,126	829,006	2,859,968	(3,494,598)	6,195,691	2,576,604	2,942,655
Total non-operating revenues	67,799,240	70,120,356	73,198,876	73,207,160	72,638,835	92,859,962	87,771,459	106,495,644	141,139,516	139,623,662
Net Water and Sewer Revenues for Debt Coverage	75,710,437	75,702,824	80,443,577	83,934,484	82,625,004	117,685,441	113,055,296	136,672,149	178,115,587	178,299,049
PARITY OBLIGATION DEBT SERVICE:										
Parity Obligation Payments (COP/Bonds)	32,731,966	37,044,680	35,061,971	35,521,108	26,604,369	22,545,830	34,166,392	4,907,150	4,988,750	4,868,750
State Loan Payments	5,703,603	4,115,116	4,322,228	4,013,353	5,877,892	-	-	-	-	-
Total Parity Obligation Debt Service	38,435,569	41,159,796	39,384,199	39,534,461	32,482,262	22,545,830	34,166,392	4,907,150	4,988,750	4,868,750
PARITY OBLIGATION DEBT SERVICE COVERAGE	2.0	1.8	2.0	2.1	2.5	5.2	3.3	27.9	35.7	36.6
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS	37,274,868	34,543,028	41,059,378	44,400,023	50,142,742	95,139,611	78,888,904	131,764,999	173,126,837	173,430,299
SUBORDINATE OBLIGATION DEBT SERVICE	-	-	-	-	2,917,542	20,192,253	10,421,019	45,597,190	46,254,481	42,828,620
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE	NA	NA	NA	NA	17.2	4.7	7.6	2.9	3.7	4.0
REMAINING REVENUES	37,274,868	34,543,028	41,059,378	44,400,023	47,225,200	74,947,358	68,467,886	86,167,809	126,872,356	130,601,679
TOTAL DEBT SERVICE	38,435,569	41,159,796	39,384,199	39,534,461	35,399,804	42,738,083	44,587,410	50,504,340	51,243,231	47,697,370
ALL-IN DEBT SERVICE COVERAGE	2.0	1.8	2.0	2.1	2.3	2.8	2.5	2.7	3.5	3.7

Notes:

- Beginning FY 2012, OPEB contribution expense was separated from Water and Sewer operating expense.
- Beginning FY 2012, excludes change in fair market value of investments (unrealized gain/loss) as these are non-cash items.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District Demographic and Economic Statistics Last Ten Calendar Years

Calendar Year	Population ¹	Personal Income ² (thousands of \$)	Per Capita Personal Income ²	Unemployment Rate ²
2010	760,128	65,363,159	30,448	14.7%
2011	768,264	67,585,240	30,698	13.6%
2012	776,986	71,936,625	32,196	12.2%
2013	784,834	74,050,799	32,737	10.3%
2014	794,790	76,511,910	33,440	8.2%
2015	803,973	80,555,648	34,753	6.7%
2016	816,411	86,033,655	36,642	6.1%
2017	827,343	90,385,180	37,936	5.2%
2018	839,226	94,210,345	38,975	4.4%
2019	850,439	99,591,680	40,637	4.2%

- Notes: 1. Data is for the District's service area. Amounts for prior years are restated with the most recent available information.
2. Data is for the County of Riverside. The District is located within the County. Amounts for prior years are updated with the most recent available information.

Sources: State of California Employment Development Department
State of California Department of Finance
U.S. Department of Commerce, Bureau of Economic Analysis

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District Principal Employers¹

Fiscal Year Ended June 30, 2020 and June 30, 2011

<u>Employer</u>	<u>2020</u>		<u>Employer</u>	<u>2011</u>	
	<u>No. of Employees</u>	<u>Percentage of Total Employment</u>		<u>No. of Employees</u>	<u>Percentage of Total Employment</u>
County of Riverside	21,672	2.0%	County of Riverside	18,000	2.3%
Amazon	10,500	1.0%	March Air Reserve Base	8,525	1.1%
University of California, Riverside	9,770	0.9%	Stater Brothers Markets	6,902	0.9%
March Air Reserve Base	9,600	0.9%	University of California, Riverside	4,907	0.6%
Stater Brothers Markets	8,304	0.8%	Corona-Norco Unified School District	4,400	0.6%
Kaiser Permanente Riverside Medical Ctr	5,700	0.5%	Pechanga Resort and Casino	4,000	0.5%
Pechanga Resort and Casino	5,078	0.5%	Riverside Unified School District	3,900	0.5%
Walmart	4,931	0.5%	Kaiser Permanente Riverside Medical Ctr	3,500	0.5%
Corona-Norco Unified School District	4,903	0.5%	Riverside Community College	3,141	0.4%
Ross Dress For Less	4,321	0.4%	Abbott Vascular	3,000	0.4%
Total	<u>84,779</u>	<u>8.0%</u>	Total	<u>60,275</u>	<u>7.8%</u>
Total Employment	<u>1,057,900</u>		Total Employment	<u>769,700</u>	

Notes:

1. Data is for the County of Riverside. The District is located within the County.

Sources: Riverside County Economic Development Agency
State of California Employment Development Department

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District Employees by Function Last Ten Fiscal Years

	2011	2012	2013 ⁴	2014	2015 ⁵	2016	2017	2018	2019	2020
Operations and Maintenance Division										
Water Operations and Distribution	64	64	65	66	61	65	65	65	66	66
Water Reclamation	90	90	86	87	88	87	85	83	85	85
Assets & Facility Management (formerly Maintenance Services)	17	17	15	15	22	19	19	19	19	19
Auto Shop and Fabrication Shop (reassigned)	16	15	16	15	-	-	-	-	-	-
Wastewater Collection	15	13	14	14	15	14	14	14	15	15
Mechanical Services (includes Fab Shop)	30	30	28	29	31	31	31	30	31	32
Electrical Services	22	23	24	24	23	24	22	26	25	26
Pipeline Maintenance (formerly included Building & Grounds)	37	34	34	34	22	22	22	21	23	22
Total Operations & Maintenance Division	291	286	282	284	262	262	258	258	264	265
Engineering Division										
General Engineering ^{1,6}	53	52	43	44	46	42	45	46	44	47
Construction Management and Inspections	39	39	35	33	29	32	30	31	32	30
Development Services ⁷	26	20	17	18	19	21	21	20	24	25
Total Engineering Division	118	111	95	95	94	95	96	97	100	102
Planning and Resources Division										
Planning and Resources ²	19	20	20	19	20	24	24	24	22	24
Environmental and Regulatory Compliance	9	9	9	10	11	12	12	8	12	12
Water Quality and Laboratory	15	15	14	14	12	12	12	12	11	12
Source Control	9	9	9	10	10	10	11	11	10	11
Total Planning and Resources Division	52	53	52	53	53	58	59	55	55	59
Executive and Administration										
Executive and Administration ⁶	10	11	12	12	13	15	16	12	12	11
Public and Governmental Affairs ³	3	11	11	11	12	12	12	13	11	12
Human Resources (formerly included Risk Management)	13	13	11	12	8	6	7	7	6	7
Safety/Risk and Emergency Management	-	-	-	-	4	5	5	5	5	5
Billing/Customer Service ⁸	62	58	55	53	56	56	54	61	50	47
Meter Services ⁸	24	24	21	19	16	14	13	14	21	20
Finance and Accounting	22	26	22	22	22	22	22	22	23	21
Information Systems	33	34	33	31	30	27	23	24	23	23
Purchasing, Warehouse and Records Management	27	30	28	27	28	28	25	28	27	27
Fleet Services (formerly Auto Shop)	-	-	-	-	11	11	11	12	11	11
Community Involvement ³	8	-	-	-	-	-	-	-	-	-
Total Executive and Administration	202	207	193	187	200	196	188	198	189	184
Total Filled Positions End of Year^{9,10}	663	657	622	619	609	611	601	608	608	610
Total Authorized Positions Start of Year	690	667	636	633	629	631	629	632	636	640
Change in Authorized Positions from Prior Year	14	(23)	(31)	(3)	(4)	2	(2)	3	4	4
Number of Vacant Positions as of June 30	27	10	13	10	20	20	28	24	28	30
Vacancy Rate as of June 30	3.9%	1.5%	2.0%	1.6%	3.2%	3.2%	4.5%	3.8%	4.4%	4.7%

Notes:

1. The General Engineering departments were reorganized in 2012.
2. The Planning and Resources workgroup was reorganized in 2016.
3. Community Involvement was restructured into Public and Governmental Affairs in 2012.
4. The decrease in filled positions is due to 43 employees accepting a retirement incentive and retiring effective June 30, 2012.
5. Organizational changes in March 2015 affected all divisions and eliminated 3 vacant positions.
6. Organizational changes in December 2015 resulted in the movement of staff from General Engineering to Executive and Administration.
7. Department name changed in 2018 from New Business to Development Services
8. Seven employees moved from Billing/Customer Service to Meter Services in 2019
9. All directors and managers are included with their divisions.
10. Temporary, contract and summer help employees are not included.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

EASTERN MUNICIPAL WATER DISTRICT OPERATING AND CAPITAL INDICATORS LAST TEN FISCAL YEARS

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<u>POTABLE WATER SYSTEM</u>										
Miles of pipeline:										
transmission and distribution: ¹	2,428	2,430	2,443	2,448	2,463	2,465	2,380	2,476	2,442	2,482
as-built	2,280	2,296	2,366	2,376	2,391	2,399	2,314	2,397	2,368	2,393
construction in progress	148	134	77	72	72	66	66	79	74	89
Number of storage tanks	77	77	77	77	77	78	79	79	79	79
Maximum storage capacity (million gallons)	191	191	191	191	191	199	203	203	203	204
Number of active pumping plants	83	83	83	83	83	83	84	86	87	87
Number of active wells:										
domestic	21	21	18	18	18	16	16	14	14	14
desalter ⁴	7	8	7	11	11	12	12	12	12	13
Domestic well production capacity:										
gallons per minute	22,326	22,285	23,292	23,382	19,299	19,604	14,708	15,625	17,100	19,600
million gallons per day	32.1	32.1	33.5	33.7	27.8	28.2	21.2	22.5	24.6	28.2
acre feet per year	36,013	35,945	37,570	37,715	31,129	31,622	23,725	25,203	27,582	31,610
Number of water treatment plants:										
desalter	2	2	2	2	2	2	2	2	2	2
filtration	2	2	2	2	2	2	2	2	2	2
Treatment plant capacity: (million gallons per day)										
desalter plants	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
filtration plants	32.0	32.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0	36.0
Number of service connections: ⁵										
active domestic accounts	135,233	136,478	140,653	142,244	144,123	146,098	148,348	150,558	153,263	155,803
active agriculture accounts	124	122	131	133	132	127	125	116	115	115
<u>SEWER SYSTEM</u>										
Miles of sewer lines: ¹										
as-built	1,736	1,756	1,780	1,799	1,813	1,816	1,790	1,819	1,831	1,868
construction in progress	110	117	55	64	64	44	49	60	60	69
Number of treatment plants	5	5	5	5	5	5	5	5	5	5
Treatment plant average design capacity (MGD) ²	60	60	68	68	70	70	69	69	69	69
Average million gallons per day treated	46.0	45.0	44.8	44.9	44.8	42.4	43.3	42.6	44.6	46.3
Percentage of capacity utilized	77%	75%	66%	66%	64%	61%	63%	62%	65%	67%
Number of active lift stations	46	47	48	48	47	46	46	50	50	48
<u>RECYCLED WATER SYSTEM</u>										
Miles of pipeline:										
transmission and distribution: ¹	202	206	213	215	217	217	207	211	225	238
as-built	179	186	196	198	200	208	197	197	211	218
construction in progress	23	20	17	17	17	9	10	14	14	20
Number of active pumping facilities	20	20	21	24	24	24	24	24	24	24
Maximum storage capacity (acre feet) ³	5,714	5,721	5,736	6,184	6,448	6,448	7,571	7,599	7,599	7,642
<u>GENERAL INFORMATION</u>										
Service area (annexed property):										
acres	346,732	346,732	346,745	346,745	346,745	346,808	346,808	347,280	347,298	347,298
square miles	541.8	541.8	541.8	541.8	541.8	541.9	541.9	542.6	542.7	542.7
Gross service area (square miles)	555	555	555	555	555	555	555	555	555	555
Average years of service of employees	10.84	11.39	11.31	12.11	12.50	12.25	11.90	11.68	11.04	11.80

Notes:

1. Miles of pipelines as-built excludes open construction in progress (CIP). CIP reflects what was recorded as open projects as of the year end date.
2. The Sun City RWRf (3 MGD) was formerly included in the total capacity although it was decommissioned. Amounts are now reflected as average design capacity. The Perris RWRf expansion to 25 MGD was completed in 2014.
3. Recycled storage increases since 2014 are due to more accurate measurements from recent surveys, plus conversions of secondary storage to tertiary storage.
4. Desalter wells formerly inactive were placed back into service during 2014.
5. Starting 2013, the number of customer connections billed within the year was used instead of the number of customers as of June 30th.

Source: Eastern Municipal Water District

EASTERN MUNICIPAL WATER DISTRICT

STATISTICAL SECTION

Eastern Municipal Water District Customer Account Write Offs as a Percentage of Sales Last Ten Fiscal Years

Fiscal Year	Retail Sales ¹	Write Offs	% of Sales
2011	143,427,078	734,381	0.5%
2012	149,580,286	703,666	0.5%
2013	159,559,632	717,146	0.4%
2014	170,496,733	851,419	0.5%
2015	169,744,235	823,650	0.5%
2016	171,146,902	714,213	0.4%
2017	182,818,310	475,022	0.3%
2018	200,388,220	331,561	0.2%
2019	201,083,661	266,364	0.1%
2020	219,187,773	279,090	0.1%
Total	<u>\$ 1,767,432,830</u>	<u>\$ 5,896,512</u>	<u>0.3%</u>

Notes:

1. Excludes sales collected by other agencies.

Source: Eastern Municipal Water District

Bad Debt Reserves as a Percentage of Accounts Receivable Last Ten Fiscal Years

Fiscal Year	Year End A/R Balance	Reserves ¹	% of A/R
2011	11,170,339	610,537	5.5%
2012	13,072,905	676,182	5.2%
2013	14,195,028	842,850	5.9%
2014	13,805,842	850,608	6.2%
2015	9,916,469	609,075	6.1%
2016	10,127,047	324,530	3.2%
2017	11,882,229	215,340	1.8%
2018	13,595,401	181,535	1.3%
2019	11,763,091	188,441	1.6%
2020 ²	12,620,425	1,427,802	11.3%

Notes:

1. Reserves equal accounts over 60 days past due.
2. In 2020, our reserves increased significantly due to the greater number of delinquent customer accounts. This was a direct result of the negative economic impact of the COVID-19 pandemic.

Source: Eastern Municipal Water District

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Master Resolution and the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the relevant document for a full and complete statement of the provisions thereof.

MASTER RESOLUTION

CERTAIN DEFINITIONS OF THE MASTER RESOLUTION

Accreted Values. The term “Accreted Values” means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates or other Capital Appreciation Parity Obligations, (i) as of any Valuation Date, the Accreted Value of any Capital Appreciation Bond or any Capital Appreciation Certificate or other Capital Appreciation Parity Obligations set forth for such date in the instrument authorizing such Capital Appreciation Bond or Capital Appreciation Certificate or other Capital Appreciation Parity Obligation, and (ii) as of any date other than a Valuation Date, the sum of (a) the Accreted Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

Accreted Value Payment Date. The term “Accreted Value Payment Date” means any Installment Payment Date or Other Parity Obligation Payment Date on which Accreted Value is payable.

Appreciated Value. The term “Appreciated Value” means, with respect to any Deferred Income Bond or Deferred Income Certificate or other Deferred Income Parity Obligation, prior to the Interest Commencement Date, (i) as of any Valuation Date, the Appreciated Value of any Deferred Income Bond or any Deferred Income Certificate or other Deferred Income Parity Obligation set forth for such date in the instrument authorizing such Deferred Income Bonds or Deferred Income Certificate or other Deferred Income Parity Obligation and (ii) as of any date other than a Valuation Date, the sum of (a) the Appreciated Value on the preceding Valuation Date and (b) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

Appreciated Value Payment Date. The term “Appreciated Value Payment Date” means any Installment Payment Date or Other Parity Obligation Payment Date on which Appreciated Value is payable.

Assumed Amortization Period. The term “Assumed Amortization Period” means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations, the period of time determined, at the election of the District, pursuant to either paragraph (a) or paragraph (b) below:

- (a) twenty-five (25) years; or
- (b) the period of time, not exceeding twenty-five (25) years, set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the maximum period of time over which obligations having comparable terms and security issued or incurred by water and sewer districts of comparable type and credit standing would, if then being offered, be marketable on reasonable and customary terms.

Assumed Interest Rate. The term “Assumed Interest Rate” means, with respect to any Parity Obligations, the principal and interest requirements of which are to be recast for purposes of a calculation of the Debt Service Coverage Ratio or in connection with the incurrence of Interim Parity Obligations, the rate per annum determined as

of the last Business Day of the preceding calendar month and determined, at the election of the District, pursuant to clause (i) or clause (ii) below:

(i) a rate per annum equal to (1) ninety percent (90%), if interest on the Parity Obligations is exempt from Federal income taxation, or (2) one hundred ten percent (110%), if interest on the Parity Obligations is subject to Federal income taxation, of the most recently published daily yields to maturity of United States Treasury securities adjusted to a constant maturity of thirty (30) years as published by the Board of Governors of the Federal Reserve System; or

(ii) the rate per annum set forth in an opinion of an Experienced Banker or Advisor, selected by the District, as being the lowest rate of interest (which may be a rate which reflects the exemption of such interest from Federal income taxation if such exemption is then available) at which obligations having comparable terms and security, amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period, and issued or incurred by water and sewer districts of comparable type and credit standing would, if being offered as of such last Business Day of the calendar month, be marketable on reasonable and customary terms, provided that such rate shall not be less than the rate specified in the "Revenue Bond Index" published in The Bond Buyer, or successor index, as in effect on the date of such opinion.

Bond or Contract or Other Parity Reserve Fund. The term "Bond or Contract or Other Parity Reserve Fund" means any debt service reserve fund established to secure the payment of Bond Payments or Installment Payments or Other Parity Obligation Payments.

Bond Payments. The term "Bond Payments" means the principal and interest payments scheduled to be paid by the District on Bonds.

Bonds. The term "Bonds" means all revenue bonds of the District authorized, executed, issued and delivered by the District 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 and Sewer Revenues on a parity with all other Parity Obligations.

Business Day. The term "Business Day" means any day other than a Saturday, Sunday or legal holiday in the State of California.

Capital Appreciation Bonds. The term "Capital Appreciation Bonds" means any Bonds described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Bonds.

Capital Appreciation Certificates. The term "Capital Appreciation Certificates" means any certificates of participation in Installment Payments described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Certificates.

Capital Appreciation Parity Obligations. The term "Capital Appreciation Parity Obligations" means Parity Obligations described as such when issued and as to which interest is payable only at the maturity or prior redemption of such Parity Obligations, except Capital Appreciation Bonds and Capital Appreciation Certificates.

Certificate Payment Date. The term "Certificate Payment Date" mean, with respect to any Certificate, the Certificate Payment Date designated therein, which is the July 1 on which, or in the case of Certificates subject to mandatory sinking fund prepayment by which, the principal installment evidenced and represented thereby shall become due and payable.

Completion Parity Obligations. The term "Completion Parity Obligations" means any Long-Term Parity Obligations or Interim Parity Obligations incurred or issued by the District for the purpose of financing the completion of a Project for which Long-Term Parity Obligations or Interim Parity Obligations have already been issued or incurred.

Contracts. The term “Contracts” means Installment Sale Agreements, Leases and Contracts of Indebtedness.

Contracts of Indebtedness. The term “Contracts of Indebtedness” means contracts of indebtedness or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

Convertible Parity Obligations. The term “Convertible Parity Obligations” means Parity Obligations which by their terms permit the District or another designated party on one or more occasions to elect or modify the period for which the rate of interest thereon is fixed.

Credit Enhanced Parity Obligations. The term “Credit Enhanced Parity Obligations” means Parity Obligations the principal of and interest on which are secured by the proceeds of an irrevocable letter of credit, surety bond, insurance policy or other credit facility or arrangement with a person whom the District is obligated to reimburse for advances made for amounts due on such Credit Enhanced Parity Obligations.

Current Water and Sewer Revenues. The term “Current Water and Sewer Revenues” means all gross income and revenue received or receivable by the District from the ownership or operation of the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees and charges and standby or water availability charges) and business interruption insurance proceeds received by the District for the Water and Sewer Service and the other services of the Water and Sewer System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water and Sewer System or arising from the Water and Sewer System, and also including (1) all income from the deposit or investment of any money in the Water and Sewer Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund, (2) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Fund or any Bond or Contract or Other Parity Reserve Fund or other fund (including, without limitation, a construction or acquisition fund) established pursuant to a Trust Agreement to the extent such income is required to be available to pay Bond Payments or Installment Payments or Other Parity Obligation Payments or is required to be deposited in the Water and Sewer Revenue Fund, and (3) benefit assessments and any proceeds of taxes to the extent the proceeds of such assessments or taxes may be legally pledged to the payment of Parity Obligations, but excluding any refundable deposits made to establish credit and advances or contributions in aid of construction.

Debt Service. The term “Debt Service” means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or period on all Outstanding Bonds, assuming that all Outstanding serial Bonds are retired as scheduled and that all Outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled, (2) that portion of the principal amounts of all Outstanding serial Bonds maturing on the next succeeding principal payment date that would have accrued during such Fiscal Year or period if such principal amounts were deemed to accrue daily in equal amounts from the next preceding principal payment date or during the year preceding the first principal payment date, as the case may be, (3) that portion of the principal amount of all Outstanding term Bonds required to be redeemed or paid on the next succeeding redemption date (together with the redemption premiums, if any, thereon) that would have accrued during such Fiscal Year or period if such principal amount (and redemption premiums) were deemed to accrue daily in equal amounts from the next preceding redemption date or during the year preceding the first redemption date, as the case may be, (4) that portion of the Installment Payments required to be made at the times provided in Contracts that would have accrued during such Fiscal Year or period if such Installment Payments were deemed to accrue daily in equal amount from, in each case, the next preceding Installment Payment Date of interest or principal, as the case may be, and (5) that portion of the Other Parity Obligation Payments required to be made at the times provided in the Other Parity Obligations that would have accrued during such Fiscal Year or period if such Other Parity Obligation Payments were deemed to accrue daily in equal amount from the next preceding Other Parity Obligation Payment Date or, with respect to the principal portion thereof, during the year preceding the first principal payment date, as the case may be; provided, that (1) if any of such Bonds are Capital Appreciation Bonds or Deferred Income Bonds, or if the Installment Payments due under any such Contracts are evidenced by Capital Appreciation Certificates or Deferred Income Certificates, or if any Other Parity Obligation Payments due under any such Other Parity Obligations constitute Capital Appreciation Parity Obligations or Deferred Income Parity Obligations, then the principal and interest

portion of the Accreted Value of an such Capital Appreciation Obligations and the Appreciated Value of all such Deferred Income Obligations becoming due at maturity or on a scheduled redemption date shall be included in the calculations of Debt Service made under this definition only from and after the date (the "Calculation Date") which is one year (or such lesser period if so provided in the instrument authorizing such Obligation) prior to the date on which such Accreted Value or Appreciated Value becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value shall be deemed to accrue in equal daily installments from the Calculation Date to such date, and (2) that the principal amount of Option Parity Obligations tendered for payment and not remarketed before the stated maturity thereof shall be deemed to accrue on the date required to be paid pursuant to such tender in the manner and only to the extent required by the instrument authorizing such Option Parity Obligations; and provided further, that "Debt Service" shall not include (1) payments due on general obligation bonds for which ad valorem property taxes have been levied and pledged and other general obligation debts for which ad valorem taxes are then being levied and collected or (2) interest on Bonds or Contracts or Other Parity Obligations which are to be paid from amounts constituting capitalized interest held pursuant to a Trust Agreement.

Debt Service Coverage Ratio. The term "Debt Service Coverage Ratio" means for the period in question the ratio of Net Water and Sewer Revenues to the Maximum Annual Debt Service; provided, however, that for purposes of calculating such ratio:

(a) principal and interest requirements on Long-Term Parity Obligations, or portions thereof, shall not be included in the computation of the Maximum Annual Debt Service (i) for any period to the extent such principal or interest, or portions thereof, is payable from amounts (including investment earnings thereon, if any) deposited in trust with a bank or other financial institution for the payment thereof (including without limitations capitalized interest and accrued interest so deposited into trust, escrowed or otherwise set aside) or (ii) for any period occurring after the date on which the Long-Term Parity Obligations are to be redeemed from monies (including investment earnings thereon, if any) which are (1) irrevocably deposited in trust with a bank or other financial institution for such purpose, (2) invested in Defeasance Obligations pending their application to such purpose and (3) verified by an independent certified public accountant as sufficient for such purpose, provided that notice of such redemption shall have been given or arrangement shall have been made therefor, or waiver of such notice shall have been received by the District;

(b) any Long-Term Parity Obligations having a single principal maturity and no sinking fund redemption requirements, or having a principal amount due in any Fiscal Year which exceeds an amount equal to 200% of the maximum principal amount of such Long-Term Parity Obligations that would have become due (whether at maturity or pursuant to sinking fund redemption requirements) in such Fiscal Year if such Parity Obligations Outstanding on the date of calculation had been amortized on a level debt service basis from the date of calculation over the stated term of such Parity Obligations, shall be deemed to bear interest at the Assumed Interest Rate and determined in accordance with paragraph (c) of the definition of Assumed Interest Rate and shall be deemed to be amortized on a level debt service basis over a period of time equal to the Assumed Amortization Period;

(c) the interest on any Variable Rate Parity Obligations shall be calculated in accordance with the definition of Assumed Interest Rate;

(d) the annual principal and interest payment on Long-Term Parity Obligations arising from any Guaranty shall be taken into account as follows:

(i) if at any time within the three full Fiscal Years immediately preceding the computation date, the obligee of the guaranteed obligation shall have demanded that the District pay principal of or interest on the guaranteed obligation and if, within thirty (30) calendar days of the District's receipt of such demand, the District shall have failed to obtain an Opinion of Counsel to the effect that the District is not legally obligated to honor such demand, then 100% of the annual principal and interest payment scheduled to become due on the guaranteed obligations; or

(ii) otherwise, twenty percent (20%) of the annual principal and interest payments scheduled to become due on the guaranteed obligations;

(e) principal and interest on Option Parity Obligations Certificates shall be determined in accordance with paragraph (h) under the caption “Summary of Certain Provisions of the Master Resolution — Additional Bonds and Contracts and Other Parity Obligations”;

(f) principal and interest on Convertible Parity Obligations shall be determined in accordance with paragraph (i) under the caption “Summary of Certain Provisions of the Master Resolution — Additional Bonds and Contracts and Other Parity Obligations”; and

(g) principal and interest on Credit Enhanced Parity Obligations shall be determined in accordance with paragraph (j) under the caption “Summary of Certain Provisions of the Master Resolution— Additional Bonds and Contracts and Other Parity Obligations”.

Defeasance Securities. The term “Defeasance Securities” means and includes, if and to the extent the same are permitted by law, only such securities as are described in clauses (i), (ii) and (iii) below which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof, or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof, as follows:

(i) any bonds or other obligations which as to principal and interest constitute direct non-callable obligations of, or are unconditionally guaranteed as to the timely payment of principal and interest by, the United States of America, including obligations of any of the Federal agencies to the extent unconditionally guaranteed as to the timely payment of principal and interest by the United States of America;

(ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) above, which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) above which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate; provided, however, any such bonds or obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any state as described above shall be rated “AAA” by S&P and/or “Aaa” by Moody’s; and

(iii) certificates that evidence ownership of the right to payments of principal or interest on obligations described in clause (i), but only if the same constitute Refcorp interest strips, CATS, TGRS and STRPS (as such terms are used in the municipal bond industry).

Deferred Income Bonds. The term “Deferred Income Bonds” means any Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Bonds.

Deferred Income Certificates. The term “Deferred Income Certificates” means any certificates of participation in Installment Payments as to which accruing interest is not paid prior to the Interest Commencement Date.

Deferred Income Parity Obligations. The term “Deferred Income Parity Obligations” means Parity Obligations as to which accruing interest is not paid prior to the Interest Commencement Date specified in the instrument authorizing such Parity Obligations, except Deferred Income Bonds and Deferred Income Certificates.

Experienced Banker or Advisor. The term “Experienced Banker or Advisor” means a reputable investment banker experienced in underwriting obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution, or a reputable financial advisor experienced in advising issuers in connection with such issuers’ issuance of obligations of the type which is the subject of an opinion rendered in accordance with a provision of the Master Resolution.

Fiscal Year. The term “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 selected and designated by the Board of Directors of the District as the Fiscal Year of the District.

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

Guaranty. The term “Guaranty” means a loan commitment or other obligation of the District, which loan commitment or other obligation guarantees in any manner, whether directly or indirectly, any obligation of any other person and which obligation of the District is payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations; provided that “Guaranty” shall not include Maintenance and Operation Obligations.

Installment Payment Date. The term “Installment Payment Date” means any date on which Bond Payments or Installment Payments are scheduled to be paid by the District under and pursuant to any Contract or Bonds.

Installment Payments. The term “Installment Payments” means Contract Payments, Installment Sale Payments or Lease Payments.

Installment Sale Agreements. The term “Installment Sale Agreements” means installment sale agreements or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and pursuant to which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations.

Installment Sale Payments. The term “Installment Sale Payments” means the Installment Sale or other periodic payments scheduled to be paid by the District under and pursuant to Installment Sale Agreements.

Interest Commencement Date. The term “Interest Commencement Date” means, with respect to any particular Deferred Income Bonds or Deferred Income Certificates or other Deferred Income Parity Obligations, the date specified in the instrument authorizing such Bonds or Certificates or other Deferred Income Parity Obligations (which date must be prior to the maturity date for such Bonds or Certificates or other Deferred Income Parity Obligations) after which interest accruing on such Bonds or Certificates or other Deferred Income Parity Obligations shall be payable with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

Interest Payment Date. The term “Interest Payment Date” means any date on which Bond Payments or Installment Payments are scheduled to be paid by the District under and pursuant to any Contract or Bonds.

Law. The term “Law” means the Municipal Water District Law of the State of California, being Division 20 of the Water Code of California, as amended, and any laws amendatory thereof or supplemental thereto.

Lease Payments. The term “Lease Payments” means the rental payments scheduled to be paid by the District under and pursuant to Leases.

Leases. The term “Leases” means capital leases or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal payments under and

pursuant to which are payable from Net Water and Sewer Revenues on a parity with the payment of any other Parity Obligations.

Liquidity Backer. The term “Liquidity Backer” means any bank or other financial institution whose long term indebtedness is rated AA or better by Standard & Poor’s Corporation or whose long term indebtedness is rated Aa or better by Moody’s Investors Service, Inc., such ratings to be determined without regard to “+” or “-”.

Long-Term. The term “Long-Term” when used in connection with Parity Obligations, shall mean Parity Obligations having an original maturity greater than one year or renewable at the option of the District for a period greater than one year from the date of original incurrence or issuance thereof, which shall not include the current portion of such Long-Term Parity Obligations as determined in accordance with Generally Accepted Accounting Principles.

Maintenance and Operation Costs. The term “Maintenance and Operation Costs” means all payments in respect of Maintenance and Operation Obligations plus all costs paid or incurred by the District for maintaining and operating the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or leased by the District, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water and Sewer System in good repair and working order, and including all cash of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, and fees and expenses of independent certified public accountant; but excluding in an cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amount paid from other than Water and Sewer Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes).

Maintenance and Operation Obligation. The term “Maintenance and Operation Obligation” means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit to or guaranty of debt, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payment thereunder are to constitute Maintenance and Operation Costs.

Master Resolution. The term “Master Resolution” means Resolution No. 2667, a Resolution of the Board of Directors of Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water and Sewer Revenues, adopted by the Board of Directors of the District on March 20, 1991, as amended by Resolution No. 2667.1, the First Supplemental Master Resolution adopted by the Board of Directors of the District on May 13, 1993, and as it may be from time to time further modified, amended or supplemented.

Maximum Annual Debt Service. The term “Maximum Annual Debt Service” means the greatest total Debt Service on Long-Term Parity Obligations (computed in accordance with clauses (a) through (g) of the definition of Debt Service Coverage Ratio) due in any Fiscal Year during the period commencing with the Fiscal Year in which such computation is made and terminating (except as otherwise provided in paragraph (e) under the caption “Summary of Certain Provisions of the Master Resolution—Additional Bonds and Contracts and Other Parity Obligations”) with the Fiscal Year in which payments are due under the last Outstanding Bond or the last Outstanding Contract or the last Outstanding Other Parity Obligation, whichever is later.

Monthly Accrued Debt Service. The term “Monthly Accrued Debt Service” means, with respect to any month, an amount equal to the sum of Debt Service with respect to all Bonds and Contracts and Other Parity Obligations accrued and to accrue to the end of such month.

Net Water and Sewer Revenues. The term “Net Water and Sewer Revenues” means, for any Fiscal Year or other period, the Water and Sewer Revenues during such Fiscal Year or period less the Maintenance and Operations Costs during such Fiscal Year or period.

Obligation. The term “Obligation” means, without duplication, (a) all obligations of the District for borrowed money or which have been incurred or assumed in connection with the acquisition of any portion of the Water and Sewer System; (b) the liability of the District under any lease or other agreement which is properly capitalized on the balance sheet of the District in accordance with Generally Accepted Accounting Principles; and (c) any Guaranty.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, retained by the District and reasonably acceptable to the Trustee.

Option Bonds. The term “Option Bonds” means Bonds which by their terms may be or are required to be tendered by and at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Certificates. The term “Option Certificates” means any certificates of participation in Installment Payments which by their terms may be or are required to be tendered by or at the option of the holder thereof for payment or purchase by the District or a third party prior to the stated maturity thereof.

Option Parity Obligations. The term “Option Parity Obligations” means any Parity Obligations which by their terms may be or are required to be tendered by and at the option of the holder or owner thereof for payment or purchase by the District or a third party prior to the stated maturity thereof, including without limitation Option Bonds and Option Certificates.

Other Parity Obligations. The term “Other Parity Obligations” means all Parity Obligations except Bonds, Contracts and Reimbursement Agreements.

Other Parity Obligation Payments. The term “Other Parity Obligation Payments” means the periodic payments scheduled to be paid by the District under and pursuant to Other Parity Obligations.

Other Parity Obligation Payment Dates. The term “Other Parity Obligation Payment Dates” means any date on which Other Parity Obligation Payments are scheduled to be paid by the District under and pursuant to any Other Parity Obligation.

Outstanding. The term “Outstanding” means, with respect to any Parity Obligations, those Parity Obligations which are not deemed paid in accordance with their terms.

Parity Obligation Payments. The term “Parity Obligation Payments” means the periodic payments scheduled to be made by the District under and pursuant to Parity Obligations.

Parity Obligations. The term “Parity Obligations” means all Obligations, the payments of which are payable from Net Water and Sewer Revenues on a parity with all other Parity Obligations, including without limitation Bonds, Contracts, Guaranties and Reimbursement Agreements.

Principal Payment Date. The term “Principal Payment Date” means a date on which principal installments evidenced and represented by the Certificates becomes due and payable, being July 1 of each year to which reference is made.

Project. The term “Project” means a specified list of any additions, betterment, extensions or improvements to the Water and Sewer System.

Refunding Parity Obligations. The term “Refunding Parity Obligations” means any Parity Obligations issued for the purpose of refunding Outstanding Parity Obligations.

Reimbursement Agreement. The term “Reimbursement Agreement” means an agreement between the District and a bank or financial institution providing for the issuance of a letter of credit, reserve fund insurance

policy, guaranty or surety bond for the purpose of making Bond Payments or Installment Payments or Other Parity Obligation Payments and requiring the District to make payments to reimburse or compensate such bank or financial institution for draws under such instruments from Net Water and Sewer Revenues on a parity with all Other Parity Obligations.

Reimbursement Payments. The term “Reimbursement Payments” means amount payable by the District as compensation or reimbursement for draws or the right to make a draw on a letter of credit, reserve fund insurance policy, guaranty or surety bond for the purpose of making Bond Payment or Installment Payments or Other Parity Obligation Payment in accordance with any Reimbursement Agreement.

Short-Term. The term “Short-Term” when used in connection with Parity Obligations, means Parity Obligations having an original maturity less than or equal to one year and not renewable at the option of the District for a term greater than one year beyond the date of original incurrence or issuance.

Subordinate Obligation Payments. The term “Subordinate Obligation Payments” means the payments scheduled to be paid by the District under and pursuant to Subordinate Obligations.

Subordinate Obligations. The term “Subordinate Obligations” means obligations of the District authorized and executed by the District under applicable law, the payments under and pursuant to which are payable from Net Water and Sewer Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to Parity Obligation Payments.

Trust Agreement. The term “Trust Agreement” means any resolution, indenture or trust agreement providing for the issuance of Bonds or certificates of participation or any Other Parity Obligation.

Valuation Date. The term “Valuation Date” means, with respect to any Capital Appreciation Bond, Capital Appreciation Certificate, Deferred Income Bond or Deferred Income Certificate, any date on which the value of such Bond or Certificate is to be determined in accordance with the instrument authorizing such Bond or Certificate.

Variable Rate Parity Obligations. The term “Variable Rate Parity Obligations” means any portion of Parity Obligations the rate of interest on which is not established at the time of incurrence as one or more numerical rates applicable throughout the term thereof or for specified periods during the term thereof, with the result that at the time of incurrence the numerical rate of interest which will be in effect during any portion of the term thereof cannot be determined.

Water and Sewer Revenues. The term “Water and Sewer Revenues” means the Current Water and Sewer Revenues plus deposits to the Water and Sewer Revenue Fund from amounts on deposit in the Rate Stabilization Fund less amounts transferred from the Water and Sewer Revenue Fund to the Rate Stabilization Fund.

Water and Sewer Service. The term “Water and Sewer Service” means the water and sewer service furnished, made available or provided by the Water and Sewer System.

Water and Sewer System. The term “Water and Sewer System” means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

ESTABLISHMENT OF FUNDS

The District establishes and agrees to maintain, so long as any Parity Obligations or Subordinate Obligations remain outstanding, a Rate Stabilization Fund, a Water and Sewer Revenue Fund, an Operating Fund, an Installment Payment Fund, an Operating Reserve Fund, a Subordinate Obligation Payment Fund and a General Reserve Fund. Each of these funds will be held by the Director of Finance of the District. Amounts in such funds shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Master Resolution and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the District. The District will only have such beneficial right or interest in such money as is provided in the Master Resolution.

DEPOSITS AND WITHDRAWALS FROM RATE STABILIZATION FUND

From time to time the District may deposit in the Rate Stabilization Fund from Current Water and Sewer Revenues such amount as the District shall determine. All amounts transferred by the District from the Rate Stabilization Fund to the Water and Sewer Revenue Fund shall be used by the District solely to pay Maintenance and Operation Costs. All interest or other earnings upon deposit in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Current Water and Sewer Revenues.

USE OF OTHER FUNDS

The District may withdraw amounts from the Installment Payment Fund solely for the purpose of paying Parity Obligation Payments at the times and in the amounts required by applicable Parity Obligations.

The District may withdraw amounts from the Subordinate Obligation Payment Fund solely for the purpose of paying payments to be made under or pursuant to Subordinate Obligations at the times and in the amounts required by applicable Subordinate Obligations or resolutions, trust agreements or indentures securing such Subordinate Obligations.

The District may withdraw money in the General Reserve Fund for any lawful purpose of the District, except to make transfers to the Rate Stabilization Fund.

The District may withdraw amounts from the Operating Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs.

The District may withdraw amounts from the Operating Reserve Fund for the purpose of paying all reasonable and necessary Maintenance and Operation Costs to the extent sufficient funds are not otherwise available within the Operating Fund for such purposes. If at any time the amount on deposit in the Operating Reserve Fund is in excess of 1/4 of the Maintenance and Operation Costs as set forth in the then-current annual budget of the District, the District may transfer such excess to the General Reserve Fund.

ADDITIONAL BONDS AND CONTRACTS AND OTHER PARITY OBLIGATIONS

The District may at any time incur or issue Parity Obligations, including without limitation any Bonds the Bond Payments under and pursuant to which, or execute any Contract the Installment Payments under and pursuant to which, or incur any Other Parity Obligations the Other Parity Obligation Payments under and pursuant to which, as the case may be, are payable from the Net Water and Sewer Revenues on a parity with the 1991 Installment Sale Agreement and all Other Parity Obligations; provided:

a. The District shall file a Certificate of the District with each Trustee to the effect that the District is not then in default under any Trust Agreement or with respect to any Parity Obligation.

b. Such Bond or Contract or Other Parity Obligation shall not allow the declaration of Bond Payments or Installment Payments or Other Parity Obligation Payments thereunder to be immediately due and payable in the event of a default by the District thereunder or under the applicable Trust Agreement or other agreement unless such remedy is then allowed with respect to all Parity Obligations then Outstanding.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the District to execute Reimbursement Agreements.

c. Long-Term Parity Obligations may be incurred provided that one of the following tests is satisfied:

1. the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, taking into account (i) all Outstanding Long-Term Parity Obligations then Outstanding, (ii) the Long-Term Parity Obligations then proposed to be incurred, and (iii) all decreases (but not increases), if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.10, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; or

2. (A) the Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which the financial statements of the District has been reported upon by an independent certified public accountant, (i) taking in to account all Outstanding Long-Term Parity Obligations then Outstanding, (ii) but not taking into account the Long-Term Parity Obligations then proposed to be incurred and (iii) taking into account both the completion of all uncompleted Projects, if any, and the costs, if any, of financing such completion, and (iv) taking into account all increases and decreases, if any, for Water and Sewer Service approved or then in effect as of such date of calculation, is not less than 1.15, and a Certificate of the District so certifying and setting forth in sufficient detail the computation thereof is filed with the trustee under each Trust Agreement along with the financial statements and report of accountants thereon if they are not already on file with such trustee; and

(B) taking into account the matters listed in clauses (i), (iii) and (iv) of paragraph (A) above, plus the then-proposed Long-Term Parity Obligations, the Debt Service Coverage Ratio for the first full Fiscal Year of the District following the completion of the Project, if any, being paid for with the proceeds of such proposed Long-Term Parity Obligations, or following the incurrence of Long-Term Parity Obligations for refunding purposes, is expected to be not less than 1.15.

d. Completion Parity Obligations may be incurred without satisfying any of the tests described in the Master Resolution.

e. Refunding Parity Obligations may be incurred provided that the report or opinions set forth in paragraph (c) above shall be delivered unless, at the time of issuance of such Refunding Parity Obligations and after giving effect thereto and to the application of the proceeds thereof, Maximum Annual Debt Service, for each subsequent Fiscal Year up to and including the Fiscal Year in which the Long-Term Parity Obligations to be refunded were originally scheduled to be Outstanding, would not be increased by more than 5%; provided, however, that if the Long-Term Parity Obligations to be refunded do not cease to be Outstanding upon, or substantially contemporaneously with the incurrence of such Refunding Parity Obligations, such Refunding Parity Obligations may be incurred pursuant to this paragraph (e) only if the proceeds (including investment earnings, thereon, if any) of the Refunding Parity Obligations are (1) irrevocably deposited in trust with an escrow agent, (2) invested in Defeasance Obligations pending their application to such purpose, and (3) verified by an independent certified public account as sufficient for such purpose; provided that notice of such redemption shall have been given or arrangements shall have been made therefor, or waiver of such notice shall have been received by the District.

f. Short-Term Parity Obligations may be incurred provided that (1) the Outstanding principal amount of Short-Term Parity Obligations incurred pursuant to this subsection does not exceed fifteen percent (15%) of the Net Water and Sewer Revenues, and (2) for a period of twenty (20) consecutive days during each Fiscal Year any Short-Term Parity Obligations shall be reduced to an aggregate Outstanding principal amount not exceeding five percent (5%) of the Net Water and Sewer Revenues for the most recent Fiscal Year, provided that Parity Obligations initially incurred pursuant to this subsection shall be deemed incurred pursuant to paragraph (c) above (and shall no longer be deemed incurred pursuant to this paragraph) on the day following that on which a Certificate of the District shall be delivered to each Trustee pursuant to paragraph (c) above, which Certificate shall include such Parity Obligations.

g. Interim Parity Obligations may be incurred provided that, at the time such Interim Parity Obligations are incurred or assumed, there shall be delivered to each Trustee:

(i) a Certificate of the District and an opinion of an Experienced Banker or Advisor selected by the District stating that the anticipated financing thereof by the issuance of Long-Term Parity Obligations is reasonably expected to be completed within the next sixty (60) months;

(ii) reports or opinions of the type required by either part (1) of paragraph (c) above or part (2) of paragraph (c) above demonstrating that all requirements of either part (1) of paragraph (c) above or part (2) of paragraph (c) above would be met if such Interim Parity Obligations were then being issued as Long-Term Parity Obligations maturing over a term equal to the Assumed Amortization Period with level annual combined payments of principal and interest and having an interest rate equal to the Assumed Interest Rate; and

(iii) either (x) evidence that such Interim Parity Obligations are secured by an irrevocable extension of credit of, or an agreement to purchase such Interim Parity Obligations from the owner thereof by, a person or (y) a written statement of an Experienced Banker or Advisor setting forth the opinion of such Experienced Banker or Advisor (which opinion shall be based upon the best estimates and recent experience of such Experienced Banker or Advisor under the then-prevailing market conditions but shall not in any event be deemed to constitute an offer to purchase any such Long-Term Parity Obligations or otherwise to create or give rise to any liability or obligation on the part of said Experienced Banker or Advisor with respect thereto) to the effect that long-term parity obligations of similar credit quality maturing over the term and bearing interest at the rate referred to in the foregoing paragraph (ii) would, if then being offered, be marketable on reasonable and customary terms.

Except to the extent expressly required by paragraphs (e) or (g) above, the reports or opinions set forth in part (2) of paragraph (c) above need not be delivered in connection with the incurrence or assumption of Parity Obligations pursuant to the provisions of paragraphs (d) or (f) above.

h. In measuring compliance with the applicable tests under the Master Resolution for incurring Option Parity Obligations and generally for purposes of determining the Debt Service Coverage Ratio: (i) Debt Service on Option Bonds or Options Certificates or other Option Parity Obligations shall not include amounts payable upon exercise by the registered owner thereof of the option to tender such Parity Obligations for payment to the extent and for so long as a Liquidity Backer is required to provide the moneys necessary for such payment, (ii) Debt Service on Option Bonds or Option Certificates or other Option Parity Obligations shall be deemed to include any periodic fees payable to the Liquidity Backer as a condition of the Liquidity Backer standing ready to provide the moneys necessary for such payment, and (iii) debt service on Option Bonds or Option Certificates or other Option Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Liquidity Backer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Liquidity Backer advancing funds and not being reimbursed.

i. Convertible Parity Obligations may be incurred if at the time of incurrence all applicable provisions of the Master Resolution are complied with for the type of Parity Obligations the Convertible Parity Obligations will be upon its incurrence; provided, however, that the District has no current intention or expectation that the conversion option of such Parity Obligations will be exercised at any particular future time but rather the conversion option has been included to provide flexibility in reacting to future circumstances, and this conversion option has not been included for the purpose of avoiding any limit or restriction in the Master Resolution on the incurrence of Parity Obligations of a type into which such Convertible Parity Obligations may be converted, and a Certificate of the District and a written statement of an Experienced Banker or Advisor selected by the District so stating is filed with the trustee under each Trust Agreement. If such a Certificate of the District is not filed with the trustee under each Trust Agreement, such Convertible Parity Obligations may be incurred only upon compliance with the provisions of the Master Resolution applicable to the form of Parity Obligations such Convertible Parity Obligations will be upon incurrence or into which it may be converted, whichever would have the highest debt service (determined in accordance with the definition of Debt Service Coverage Ratio) for any one-year period.

j. In determining compliance with the applicable provisions of the Master Resolution for the incurrence of Credit Enhanced Parity Obligations, the District which is also undertaking any contingent repayment obligation to a person who has undertaken to provide moneys necessary for payment to registered owners of such Credit Enhanced Parity Obligations (the “Credit Enhancers”) shall not also be deemed to be incurring separate Parity Obligations to the Credit Enhancer.

In measuring compliance with the applicable tests under the Master Resolution for incurring Credit Enhanced Parity Obligations, and generally for purposes of determining the Debt Service Coverage Ratio, Debt Service on Credit Enhanced Parity Obligations shall be deemed to include any periodic payment payable to the Credit Enhancer as a condition of the Credit Enhancer standing ready to provide moneys necessary for payment to the registered owners of such Credit Enhanced Parity Obligations, and Debt Service on Credit Enhanced Parity Obligations shall not be based upon the terms of any reimbursement obligation to the Credit Enhancer except to the extent and for periods during which payments have been required to be made pursuant to such reimbursement obligation due to the Credit Enhancer advancing funds and not being reimbursed.

OTHER OBLIGATIONS

a. Amounts to be paid by the District with respect to any Maintenance and Operation Obligation shall constitute Maintenance and Operation Costs only if at the time such Obligation is entered into the District shall deliver to the trustee under each Trust Agreement a Certificate of the District to the effect that (i) the making of payments on such Obligation as Maintenance and Operation Costs will not impair the District’s ability to comply with its rate covenant during the next five Fiscal Years or five Fiscal Years beyond the commercial operation date of the Project being financed with such Obligation, whichever is later, and (ii) the properties, services or commodities to be furnished pursuant to such Obligation can be economically and beneficially utilized by the District. If the amounts to be paid by the District for a Maintenance and Operation Obligation do not constitute Maintenance and Operation Costs, then such amounts shall be paid out of the Subordinate Obligation Payment Fund or the General Reserve Fund unless, at the time such Obligation is initially incurred, the District demonstrates compliance with the tests described above under “Additional Bonds and Contracts and Other Parity Obligations,” in which event such amounts may be paid from the Installment Payment Fund.

b. Subordinated Obligations may be incurred without meeting any of the tests described above under “Additional Bonds and Contracts and Other Parity Obligations.”

ADDITIONAL COVENANTS OF THE DISTRICT

Against Encumbrances. The District 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 District in, upon, about or relating to the Water and Sewer System and will keep the Water and Sewer System free of any and all liens against any portion of the Water and Sewer System. In the event any such lien attaches to or is filed against any portion of the Water and Sewer System, the District 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 District 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 District will forthwith pay or cause to be paid and discharged such judgment.

Against Sale or Other Disposition of Property. The District will not sell, lease or otherwise dispose of the Water and Sewer System or any part thereof essential to the proper operation of the Water and Sewer System or to the maintenance of the Net Water and Sewer Revenues, and will not enter into any agreement or lease which would impair the operation of the Water and Sewer System or any part thereof necessary to secure adequate Net Water and Sewer Revenues for the payment of Parity Obligation Payments or Subordinate Obligation Payments, or which would otherwise impair the rights of the holders of Bonds or Certificates or Other Parity Obligations with respect to the Net Water and Sewer Revenues or the operation of the Water and Sewer 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 and Sewer System, or any material or equipment which has become worn out, may be sold if such sale will not reduce the Net Water and Sewer Revenues below the requirements of the District’s rate covenant.

Maintenance and Operation of the Water and Sewer System. The District will maintain and preserve the Water and Sewer System in good repair and working order at all times and will operate the Water and Sewer System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

Not later than the first Business Day of each Fiscal Year, the District will adopt and, if requested, make available to each Trustee, a budget approved by the Board of Directors of the District setting forth the estimated Maintenance and Operation Costs, the estimated payments for Debt Service, the estimated Reimbursement Payments and the estimated debt service payments on an Subordinate Obligations 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 each Trustee.

Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Water and Sewer System and all other contracts affecting or involving the Water and Sewer System to the extent that the District is a party thereto.

No Superior Liens. The District will not create or allow any lien or payment from the Net Water and Sewer Revenues or any part thereof prior or superior to the obligation to make the Parity Obligation Payments as provided in the Master Resolution or which might impair the security of any Parity Obligation.

Insurance. The District will procure and maintain such insurance relating to the Water and Sewer System which it shall deem advisable or necessary (based on the annual written report and approval of an independent insurance consultant) to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with facilities, properties, structures and works similar to the Water and Sewer System; provided, the District shall not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; provided further, 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 the facilities, properties, structures and works similar to the Water and Sewer System.

ACCOUNTING RECORDS AND FINANCIAL STATEMENTS

a. The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water and Sewer System, which records shall be available for inspection by each Trustee at reasonable hours and under reasonable conditions.

b. The District will prepare and file with each Trustee annually within one hundred and eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal year ending June 30, 1991):

(1) financial statement of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, certified by the independent certified public accountant who examined such financial statement stating that nothing came to his attention in connection with such examination that caused him to believe that the District was not in compliance with any of the agreements or covenants contained in the Master Resolution; and

(2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the District with respect to the Water and Sewer System as of the close of such Fiscal year, including the names of the insurers which have issued the policies, the amounts thereof and the property or risks covered thereby and a copy of the current annual report of the District's independent insurance consultant.

c. The District will prepare annually not more than one hundred twenty (120) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 1991) a summary report showing in reasonable detail the result of the operations of the District for such Fiscal Year and containing a general statement of the physical condition of the facility, properties, structures or works of the District and the insurance therein being maintained. The District will furnish a copy of such summary report to each Trustee.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Water and Sewer System or any part thereof when the same shall become due. The District will duly observe and conform with all valid regulations and requirement of any governmental authority relative to the operation of the Water and Sewer System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Collection of Rates, Fees and Charges. The District will charge and collect or cause to be collected the rates, fees and charges applicable to the Water and Sewer Service and will not permit any part of the Water and Sewer 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 District may without charge use the Water and Sewer Service.

Eminent Domain and Insurance Proceeds. If all or any part of the Water and Sewer System shall be taken by eminent domain proceedings, or if the District receives any insurance proceeds resulting from a casualty loss to the Water and Sewer System, the proceeds thereof shall be used to substitute other components for the condemned or destroyed component of the Water and Sewer System or applied to the cancellation of Parity Obligations.

INDENTURE

DEFINITIONS; EQUAL SECURITY

Definitions. Unless the context otherwise requires, the terms defined in the Indenture for all purposes thereof and of any amendment thereof or supplement thereto and of the Bonds and of any certificate, opinion, request or other document mentioned therein have the meanings defined below, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined in the Indenture:

“Accountant’s Report” means a report signed by an Independent Certified Public Accountant.

“Adjusted Interest Rate” means, with respect to the interest rate to be borne by the Bonds during any Adjustment Period, the annual interest rate determined on the applicable Rate Determination Date in accordance with the Indenture.

“Adjustment Period” means the period of time that any Adjusted Interest Rate remains in effect, which period: (a) with respect to the Daily Mode, will be the period consisting of one day; (b) with respect to a Flexible Rate Bond or a Term Rate Bond, will be the period from and including the Rate Determination Date for such Bond with respect to such Adjustment Period to and including the day preceding the following Rate Determination Date for such Bond as established by the District pursuant to the Indenture; provided, however, that the day after the last day of any such Adjustment Period will be a Business Day and each such Adjustment Period will be at least one day; (c) with respect to the Weekly Mode, initially will be the period from and including the first day that the Bonds become subject to the Weekly Mode to and including the following Wednesday and thereafter commencing on each Thursday to and including Wednesday of the following week; (d) with respect to the Monthly Mode, initially will be the period from and including the first day that the Bonds become subject to the Monthly Mode to but not including the first day of the following calendar month and thereafter will be the period from and including the first day of each calendar month to but not including the first day of the following calendar month; (e) with respect to the Semi-Annual Mode, initially will be the period from and including the first day that the Bonds become subject to the Semi-Annual Mode to but not including the next January 1 or July 1, whichever first occurs, and thereafter will be the period from and including such January 1 or July 1, as applicable, to but not including the next succeeding January 1 or July 1, whichever first occurs; (f) with respect to the Annual Mode, initially will be the period from and including the first day that the Bonds become subject to the Annual Mode to but not including the next January 1 or July 1, whichever last occurs, and thereafter will be the period from and including such January 1 or July 1, as applicable, to but not including the next succeeding January 1 or July 1, whichever last occurs; and (g) with respect to the Fixed Rate Mode, will be the period from and including the Conversion Date to but not including the Maturity Date. No Adjustment Period will extend beyond the day preceding the Maturity Date.

“Alternate Rate” means, on any Rate Determination Date, for any Mode other than the Index Mode, a rate per annum equal to 110% of SIFMA.

“Annual Mode” means the Mode in which the duration of the Adjustment Period is determined in accordance with clause (f) of the definition of Adjustment Period.

“Authority” means the Eastern Municipal Water District Financing Authority, a public body that is duly organized and existing under the Joint Exercise of Powers Agreement, and under the Constitution and laws of the State.

“Authorized Denominations” means, with respect to the Index Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof.

“Authorized Representative” means, with respect to the District, its President, Vice President, Secretary, General Manager, Deputy General Manager, Chief Financial Officer or any other person designated as an Authorized Representative of the District by a Certificate of the District signed by its President, Vice President, Secretary, General Manager, Deputy General Manager or Chief Financial Officer and filed with the Trustee.

“Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Bond Counsel” means any firm of nationally recognized municipal bond attorneys selected by the District and experienced in the issuance of municipal bonds and the exclusion of the interest thereon from gross income for federal income tax purposes.

“Bond Depository” means The Depository Trust Company and, in accordance with then-current guidelines of the Securities and Exchange Commission, another trust company or other financial institution which is registered as a “clearing agency” pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended, or is otherwise qualified under applicable law to act as securities custodian for Bonds on behalf of the Participants and the Beneficial Owners of interests in such Bonds.

“Bond Register” means books for the registration of the ownership, transfer or exchange of the Bonds required to be kept by the Trustee at its Corporate Trust Office pursuant to the provisions of the Indenture.

“Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2021B issued by the District pursuant to the Indenture. The term “Bonds” as defined in the Indenture does not have the meaning assigned to such term in the Master Resolution, and “Bonds” as defined in the Indenture constitute “Subordinate Obligations” under the Master Resolution so long as the Master Resolution is operative.

“Business Day” means a day that is not a Saturday or Sunday or a day on which the banks or trust companies in New York, New York, or in Los Angeles, California, or the city in which the office of the Liquidity Provider where drawings under the Liquidity Facility are to be made, are not authorized or required by law or executive order to remain closed and on which the New York Stock Exchange is not closed.

“Calculation Agent” means the Trustee or any other person appointed by the District to serve as calculation agent for the Bonds.

“Call Protection Date” means, with respect to the Initial Period, January 1, 2024; and thereafter, the date determined pursuant to the Indenture.

“Cede & Co.” means Cede & Co., the Nominee of DTC as Bond Depository for any Bonds, and any successor Nominee of DTC as such Bond Depository.

“Change in Mode” means any change pursuant to the Indenture from one Mode to another Mode.

“Closing Date” means June 10, 2021.

“Code” means the Internal Revenue Code of 1986, as amended.

“Contracts” means the 2015B Installment Purchase Agreement, the 2016B Installment Purchase Agreement, the 2017D Installment Purchase Agreement, the 2020A Installment Purchase Agreement, the Liquidity Facilities, the LIBOR Swap, the State Loans and all other contracts of the District which are previously or later authorized and executed by the District, the payments under which are payable from Net Revenues on a parity with the Bonds and which are secured by a pledge of and lien on Net Revenues as described in the Indenture; and excluding contracts entered into for maintenance and operation of the Water and Sewer System. The term “Contracts” as defined in the Indenture does not have the meaning assigned to such term in the Master Resolution, and “Contracts” as defined in the Indenture constitute “Subordinate Obligations” under the Master Resolution so long as the Master Resolution is operative.

“Conversion Date” means the date on which the Bonds begin to bear interest at the Fixed Interest Rate.

“Corporate Trust Office” means with respect to the Trustee its corporate trust office located at 633 West Fifth Street, 24th Floor, Los Angeles, California 90071, and solely for purposes of the presentation of Bonds for payment, transfer or exchange the corporate trust operations office designated by the Trustee. The Trustee may later designate alternate Corporate Trust Offices and any successor Trustee will designate its Corporate Trust Office by written notice delivered to the Notice Parties.

“Current Water and Sewer Revenues” means all gross income and revenue received or receivable by the District from the ownership or operation of the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, charges (including connection fees and charges and standby or water availability charges) and business interruption insurance proceeds received by the District for the Water and Sewer Service and the other services of the Water and Sewer System and all other income and revenue howsoever derived by the District from the ownership or operation of the Water and Sewer System or arising from the Water and Sewer System, and also including: (i) all income from the deposit or investment of any money in the Water and Sewer Revenue Fund, the General Reserve Fund and the Rate Stabilization Fund; (ii) all income from the deposit or investment of money held in the Installment Payment Fund, the Subordinate Obligation Payment Fund or any Parity Bond or Contract or Other Parity Reserve Fund (as all of such terms are defined in the Master Resolution and for so long as such funds are operative) or other fund (including, without limitation, a construction or acquisition fund) established pursuant to a resolution, indenture or trust agreement providing for the issuance of Parity Obligations, Parity Bonds or Contracts to the extent that such income is required to be available to make payments on Parity Obligations, Parity Bonds or Contracts or is required to be deposited in the Water and Sewer Revenue Fund; and (iii) benefit assessments and any proceeds of taxes to the extent that the proceeds of such assessments or taxes may be legally pledged to the payment of Parity Obligations or Subordinate Obligations, but excluding any refundable deposits made to establish credit and advances or contributions in aid of construction.

“Daily Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (a) of the definition of Adjustment Period.

“Debt Service” means, for any period of calculation, the sum of: (i) the interest payable during such period on all outstanding Bonds, and Parity Bonds, assuming that all outstanding serial Bonds and Parity Bonds are retired as scheduled and that all outstanding term Bonds and Parity Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program); (ii) those portions of the principal amount of all outstanding serial Bonds and Parity Bonds maturing in such period; (iii) those portions of the principal amount of all outstanding term Bonds and Parity Bonds required to be redeemed or paid in such period; (iv) those obligations under the Contracts required to be paid by the District during such period (except to the extent that the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17,

2009)), or any future similar program), including but not limited to certain regularly scheduled payments made pursuant to the LIBOR Swap and any other Contract which is an interest rate swap agreement to the extent that such payments are due and payable; and (v) so long as any Liquidity Facility is in effect, any principal amount owing thereunder, with interest thereon as provided in such Liquidity Facility; but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds, Parity Bonds or Contracts; provided that, as to any such Bonds, Parity Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will, for all purposes, be assumed to bear interest: (I) for periods when the actual interest rate can be determined, at the actual interest rate; and (II) for periods when the actual interest rate cannot be determined: (A) if interest on such Bonds, Parity Bonds or Contracts has accrued for at least 12 months, at the average interest rate with respect to such Bonds, Parity Bonds or Contracts over the preceding 12 months; or (B) if interest on such Bonds, Parity Bonds or Contracts has not accrued for at least 12 months, at: (y) the average of the SIFMA Index for tax-exempt variable rate obligations for the 12 months prior to the time of such calculation (in the case of tax-exempt variable rate obligations) plus any applicable spread to the SIFMA Index or other index for such Bonds, Parity Bonds or Contracts, as such spread is determined by the applicable indenture or trust agreement pursuant to which such Bonds, Parity Bonds or Contracts were issued or delivered, as applicable; or (z) the average of the one-month London Interbank Offered Rate for taxable variable rate obligations for the 12 months prior to the time of such calculation (in the case of taxable variable rate obligations) plus any applicable spread to the one-month London Interbank Offered Rate for taxable variable rate obligations, as such spread is determined by the applicable indenture or trust agreement pursuant to which such Bonds, Parity Bonds or Contracts were issued or delivered, as applicable. For purposes of the foregoing, at any time upon or after the cessation of the one-month London Interbank Offered Rate, which is currently expected to occur in 2023, “one-month London Interbank Offered Rate” means any comparable alternative short-term interest rate index as may be selected by the District and communicated to the Trustee in writing; and provided further that if any series or issue of such Bonds, Parity Bonds or Contracts have 25% or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined, at the election of the District, either when due and payable or, for the period of determination, as if the principal of and interest on such series or issue of such Bonds, Parity Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of 25 years from the date of calculation; and provided further that, as to any such Bonds, Parity Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds, Parity Bonds or Contracts or portions thereof, such accreted discount will not be treated as interest in the calculation of Debt Service and any interest payable on such Bonds, Parity Bonds or Contracts will be calculated only when due and payable; and provided further that if the Bonds, Parity Bonds or Contracts constitute Paired Obligations, the interest rate on such Bonds, Parity Bonds or Contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the District with respect to such Paired Obligations but only if the applicable Paired Obligations satisfy the requirements set forth in the Indenture; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds, Parity Bonds or Contracts for which such debt service reserve fund was established and, to the extent that the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

Notwithstanding anything to the contrary set forth in the Indenture, the payment of the Purchase Price of Bonds or Parity Bonds upon an optional or mandatory tender thereof does not constitute Debt Service to the extent that such payment is not made or expected to be made from Net Revenues.

The term “Debt Service” as defined in the Indenture not have the meaning assigned to such term in the Master Resolution, and “Debt Service” as defined in the Indenture constitute “Subordinate Obligation Payments” under the Master Resolution so long as the Master Resolution is operative.

“District” means the Eastern Municipal Water District, a municipal water district that is duly organized and existing under the laws of the State.

“District Purchase Account” means the account so defined and created in the Indenture.

“District Representative” means a person at the time designated to act on behalf of the District for purposes of the Indenture by a certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the District by any of its officers. The certificate may designate an alternate or alternates.

“DTC” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns. References in the Indenture to DTC include any Nominee of DTC in whose name any Bonds are then registered.

“DWR” means the State of California Department of Water Resources.

“Electronic Notice” means notice through telecopy, telegraph, telex, facsimile transmission, e-mail or other electronic means of communication.

“Eligible Account” means an account that is either: (a) maintained with a federal or state-chartered depository institution or trust company that has a S&P’s short-term debt rating of at least “A-2” (or, if no short-term debt rating, a long-term debt rating of “BBB+”) or an equivalent rating from any other Rating Agency; or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12, Section 9.10(b) of the Code of Federal Regulations, which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

“EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System, accessible on the Internet at <http://emma.msrb.org>.

“Event of Default” means any occurrence or event specified as such in and defined by the Indenture.

“Expiration Date” means, with respect to a Liquidity Facility, the stated expiration date of such Liquidity Facility, as it may be extended from time to time as provided in such Liquidity Facility, or any earlier date on which such Liquidity Facility terminates, expires or is cancelled.

“Favorable Opinion of Bond Counsel” means, with respect to any action the occurrence of which requires such an opinion, an unqualified (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds) Opinion of Bond Counsel to the effect that such action is permitted under the Law and the Indenture and will not impair the exclusion of interest on the Bonds from gross income for purposes of federal income taxation or the exemption of interest on the Bonds from personal income taxation under the laws of the State.

“Federal Securities” means any direct, noncallable general 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 of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

“FINRA” means the Financial Industry Regulatory Authority, its successors and assigns.

“Fiscal Year” means the twelve month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve month period later selected and designated as the official fiscal year period of the District.

“Fitch” means Fitch Ratings, and its successors or assigns, except that if such corporation is dissolved or liquidated or no longer performs the services of a municipal securities rating agency, then “Fitch” will be deemed to refer to any other nationally recognized municipal securities rating agency rating the Bonds at the request of the District.

“Fixed Interest Rate” means, with respect to a Bond, the rate to be borne by such Bond on and after the Conversion Date, which rate will be determined in accordance with the Indenture.

“Fixed Rate Mode” means the Mode in which the duration of the Adjustment Period is determined in accordance with clause (g) of the definition of Adjustment Period.

“Fixed Rate Terms Certificate” means the certificate delivered by the District to the Trustee in connection with a conversion of the Bonds to the Fixed Rate Mode in accordance with the Indenture.

“Flexible Index Mode” means the Mode in which the interest rate payable with respect to the Bonds is adjusted pursuant to the Indenture, and the Tender Period of which does not exceed 270 days.

“Flexible Rate” means the Adjusted Interest Rate for a Flexible Rate Bond for the applicable Adjustment Period determined pursuant to the Indenture.

“Flexible Rate Bonds” means the Bonds during the Flexible Rate Mode.

“Flexible Rate Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (b) of the definition of Adjustment Period and each such Adjustment Period is equal to or less than one year.

“Funds” means, collectively, the Purchase Fund, the Subordinate Obligation Payment Fund and the Costs of Issuance Fund created pursuant to the Indenture.

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

“General Reserve Fund” means the fund by that name established pursuant to the Master Resolution.

“Government Code” means the California Government Code, as amended.

“Indenture” means the Indenture of Trust relating to the Bonds, dated as of June 1, 2021, by and between the District and the Trustee, as it may from time to time be modified, supplemented or amended pursuant to the provisions thereof.

“Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, each of whom is independent of the District pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

“Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the District, which may, for purposes of the certification described in the definition of “Paired Obligations” be an interest rate swap advisor, and who, or each of whom: (i) is in fact independent and not under domination of the District; (ii) does not have any substantial interest, direct or indirect, with the District; and (iii) is not connected with the District as an officer or employee thereof, but who may be regularly retained to make reports thereto.

“Index Mode” means the Mode in which the interest rate payable with respect to the Bonds is adjusted as described in the Official Statement under the caption “THE 2021B BONDS—Determination of Index Tender Rates and Index Rate Accrual Periods for 2021B Bonds in Index Mode.”

“Index Rate Accrual Period” means, for Bonds in an Index Mode, the period from each Interest Accrual Date to and including: (a) the day next preceding the next Interest Payment Date for such Bonds; and (b) the day next preceding any Redemption Date, as applicable; provided, however, that the first Index Rate Accrual Period will begin on the date of delivery of the Bonds.

“Index Spread” means, with respect to the initial Tender Period, +0.10% and, with respect to subsequent Tender Periods, a fixed per annum rate determined by the Remarketing Agent as described under the captions “THE

2021B BONDS—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender—Determination of Index Spread” and “THE 2021B BONDS—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Determination of Index Spread.”

“Index Tender Rate” means, for any Index Rate Accrual Period during a Tender Period, a rate of interest equal to: (1) for Bonds in the Index Mode bearing interest at a SIFMA Index Rate, the SIFMA Index Rate calculated for each day during such Index Rate Accrual Period; and (2) for Bonds in the Index Mode bearing interest at a LIBOR Index Rate, the LIBOR Index Rate calculated for such Index Rate Accrual Period.

“Information Services” means EMMA or such services providing information with respect to called bonds as the District may designate in a certificate of the District Representative delivered to the Trustee.

“Initial Rating Requirement” means the rating requirement described in clause (a) under the caption “MISCELLANEOUS—Paired Obligation Provider Guidelines.”

“Initial Period” means the period commencing on the Closing Date and ending on the first to occur of: (i) an Unscheduled Mandatory Tender Date if all Bonds are actually purchased on such date; (ii) the first date on which the Bonds bear interest in a Mode other than the Index Mode next succeeding the Closing Date, including a Conversion Date; (iii) the Scheduled Mandatory Tender Date applicable to the Initial Period; (iv) the date on which all Bonds are redeemed; and (v) the Maturity Date.

“Interest Account” means the account so defined and created in the Indenture.

“Interest Accrual Date” means with respect to any period during which Bonds bear interest at an Index Tender Rate, the first day of each Tender Period and, thereafter, each Interest Payment Date during that Tender Period.

“Interest Payment Date” means: (a) with respect to each Bond in the Index Mode, the first Business Day of each calendar month, commencing July 1, 2021; (b) each Mandatory Purchase Date; (c) each Unscheduled Mandatory Tender Date on which all Outstanding Bonds are purchased as provided in the Indenture; (d) each Scheduled Mandatory Tender Date; (e) without duplication as to any Interest Payment Date listed above, with respect to any Bonds while subject to a SIFMA Delayed Remarketing Period or LIBOR Delayed Remarketing Period: (1) the dates described in the Official Statement under the caption “THE 2021B BONDS—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender—Delayed Remarketing Period;” and (2) the last day of the SIFMA Delayed Remarketing Period or LIBOR Delayed Remarketing Period, as applicable; (f) the Maturity Date; and (g) each Conversion Date or the effective date of change to a new Fixed Rate Mode.

“Installment Payment Fund” means the fund by that name established and held by the District pursuant to and in accordance with the Master Resolution.

“Joint Exercise of Powers Agreement” means that certain Joint Exercise of Powers Agreement, dated as of April 1, 2015, by and between the District and Community Facilities District No. 2001-01 (French Valley) of the Eastern Municipal Water District, a community facilities district that is duly organized and validly existing pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, Sections 53311 et seq. of the California Government Code, as amended from time to time.

“Law” means the Municipal Water District Law of 1911, codified at Section 71000 *et seq.* of the California Water Code.

“LIBOR” means the rate of interest per annum, as determined by the Calculation Agent, based on the rate for United States dollar deposits for delivery on the LIBOR Index Reset Date for a period equal to one month as reported on Reuters Screen LIBOR01 page (or any successor page) at approximately 11:00 a.m., London time, on each LIBOR Rate Determination Date (or if not so reported, as determined by the Calculation Agent, then as determined by the Trustee from another recognized source of interbank quotation). Notwithstanding anything in the Indenture to the contrary, if LIBOR determined as provided above would be less than 0.0%, then LIBOR will be

deemed to be 0.0%. Notwithstanding the foregoing, at any time on or prior to the cessation of the London Interbank Offered Rate, which is currently expected to occur in 2023, “LIBOR” means any comparable alternative short-term interest rate index as may be selected by the District and communicated to the Trustee and the Remarketing Agent in writing.

“LIBOR Delayed Remarketing Period” means the period from and including the applicable Scheduled Mandatory Tender Date on which all of the Bonds bearing interest at a LIBOR Index Rate subject to purchase on such date pursuant to a Scheduled Mandatory Tender have not been purchased or remarketed to (but not including) the earlier to occur of: (a) the date on which all of such Bonds are successfully purchased or remarketed; or (b) the date on which all of such Bonds have been deemed to have been paid and are no longer Outstanding pursuant to the Indenture.

“LIBOR Delayed Remarketing Period Rate” means, during any LIBOR Delayed Remarketing Period, the following per annum interest rate on the Bonds:

<i>For the Period of Days from the applicable Scheduled Mandatory Purchase Date on which such LIBOR Delayed Remarketing Period commences</i>	<i>Interest Rate</i>
0-89 days	6.00%
90 days to 179 days	8.00%
180 days and thereafter	Maximum Rate

Notwithstanding any of the foregoing, the LIBOR Delayed Remarketing Period Rate may not exceed the Maximum Rate.

“LIBOR Factor” means, during any LIBOR Index Rate Period, 70% or, with a Favorable Opinion of Bond Counsel, such other percentage as may be designated in writing by the District as the LIBOR Factor for such LIBOR Index Rate Period as described in the Official Statement under the caption “THE 2021B BONDS—Changes in Mode.”

“LIBOR Index Rate” means a per annum rate of interest equal to the sum of: (a) the product of LIBOR and the LIBOR Factor; and (b) the Index Spread.

“LIBOR Index Rate Period” means any period during which the Bonds bear interest with reference to the LIBOR Index Rate.

“LIBOR Index Reset Date” means the first Business Day of each calendar month.

“LIBOR Rate Determination Date” means the date that is two London Business Days preceding each LIBOR Index Reset Date.

“LIBOR Swap” means, collectively: (1) the 1992 International Swaps and Derivatives Association, Inc., Master Agreement; (2) the Schedule to the Master Agreement; (3) the Credit Support Annex to the Schedule to the Master Agreement; and (4) the Confirmation to the Schedule to the Master Agreement, each dated as of October 1, 2014, except for (4), which is dated October 31, 2014, and each by and between Wells Fargo Bank, N.A. and the District, relating to the 2018B Bonds, and all exhibits thereto, as amended or restated from time to time.

“Liquidity Facilities” means the standby bond purchase agreements, lines of credit, loans, guaranties or similar agreements issued to provide liquidity support to pay the purchase price of the 2018A Bonds or any other Parity Bonds or Contracts tendered for purchase in accordance with the provisions thereof.

“Liquidity Facility” means any letter of credit, line of credit, standby purchase agreement or other instrument which provides for the payment of the Purchase Price of the Bonds and is provided to the Trustee pursuant to the Indenture.

“Liquidity Facility Interest Amount” means the amount of the Liquidity Facility which may be drawn upon to pay interest on the Bonds, which during the Index Mode, will be an amount equal to the interest to accrue on the Outstanding Bonds over a 34 day period in such Modes calculated at the Maximum Rate on the basis of a 365-day year for the actual number of days elapsed.

“Liquidity Facility Purchase Account” means the account so defined and created in the Indenture.

“Liquidity Provider” means, as of any time, the issuer of a Liquidity Facility then in effect with respect to the Bonds, if any, and its successors and assigns.

“Liquidity Provider Interest Rate” means the interest rate payable on Liquidity Provider-Owned Bonds, but not in excess of the rate determined pursuant to clause (a) of the definition of “Maximum Rate.”

“Liquidity Provider-Owned Bonds” means any Bonds registered in the name of the Liquidity Provider pursuant to the Indenture.

“London Business Day” means any day that is a day for trading by and between banks in Dollar deposits in the London interbank market.

“Mail” means mailed by first-class United States mail, postage prepaid or by Electronic Notice.

“Maintenance and Operation Costs” means all payments in respect of Maintenance and Operation Obligations plus all costs paid or incurred by the District for maintaining and operating the Water and Sewer System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased or leased by the District, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water and Sewer System in good repair and working order, and including all administrative costs of the District, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the District or charges required to be paid by it to comply with the terms of the Master Resolution or of any resolution authorizing the execution of any Parity Obligations, Bonds, Parity Bonds or Contracts, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, Bonds, Parity Bonds or Contracts, fees and expenses of independent certified public accountants and any amounts owed under a Liquidity Facility not constituting principal or interest; but excluding in all cases: (i) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts; (ii) interest expense; (iii) non-cash expenses attributable to pension plans, other retirement accounts and other post-employment benefits; and (iv) amounts paid from other than Water and Sewer Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes to the extent that such ad valorem property taxes do not constitute Water and Sewer Revenues).

“Maintenance and Operation Obligation” means any contract or lease for the purchase of any facilities, properties, structures, or works, or any loan of credit to or guaranty of debt, claims or liabilities of any other person for the purpose of obtaining any facilities, properties, structures or works, the final payments under which are due more than five years following the effective date thereof, so long as in each case the payments thereunder are to constitute Maintenance and Operation Costs.

“Mandatory Purchase Date” means: (a) the date of any Change in Mode set forth in a Notice of Change in Mode, whether or not such Change in Mode actually occurs; (b) any Substitution Date; (c) the fifth Business Day prior to an Expiration Date; (d) a date which is the eighth day (or if such day is not a Business Day, the next succeeding Business Day) after the Trustee’s receipt of written notice from the Liquidity Provider that the Liquidity Provider is terminating the Liquidity Facility by reason of occurrence of an event of default under the Reimbursement Agreement and directing the Trustee to cause a mandatory tender of the Bonds; and (e) the date established as described in the Official Statement under the caption “THE 2021B BONDS—Remarketing and

Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender—Purchase and Sale of Bonds During Delayed Remarketing Period.”

“Maturity Date” means July 1, 2046.

“Master Note” means The Municipal Commercial Paper – TECP Master Note executed by the District and authenticated by the Trustee, as paying agent, in connection with a Change in Mode to the Flexible Index Mode, in substantially the form attached to the Indenture.

“Master Resolution” means Resolution No. 2667, a Resolution of the Board of Directors of Eastern Municipal Water District Providing for the Allocation of Water and Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water and Sewer Revenues, adopted by the Board of Directors of the District on March 20, 1991, as amended by Resolution No. 2667.1, the First Supplemental Master Resolution adopted by the Board of Directors of the District on May 13, 1993, as it may be from time to time further modified, amended or supplemented.

“Maximum Rate” means the lesser of: (a) the maximum rate permitted on that day for the Bonds by Section 53531 of the California Government Code or any other applicable provisions of law; or (b) the rate used to calculate the size of the portion of the Liquidity Facility which is available to be drawn upon for the payment of interest on the Bonds; provided, however, that, if no Liquidity Facility is then in effect, the Maximum Rate will be the rate determined pursuant to clause (a).

“Minimum Rating Requirement” means the rating requirement described in clause (b) under the caption “MISCELLANEOUS—Paired Obligation Provider Guidelines.”

“Mode” means the Flexible Index Mode, the Index Mode, the Flexible Rate Mode, the Term Rate Mode, the Daily Mode, the Weekly Mode, the Monthly Mode, the Semi-Annual Mode, the Annual Mode or the Fixed Rate Mode.

“Monthly Mode” means the Mode in which the duration of the Adjustment Period is determined in accordance with clause (d) of the definition of Adjustment Period.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, then “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency rating the Bonds at the request of the District.

“MMI Procedures” means DTC’s Operational Arrangements and the Issuing/Paying Agent General Operating Procedures for Money Market Instruments as the same may be amended and modified from time to time.

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

“Net Revenues” means, for any Fiscal Year or other period, the Net Water and Sewer Revenues during such Fiscal Year or period less all net amounts payable by the District on the Parity Obligations during such Fiscal Year or period. When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues will include all interest or gain derived from the investment of amounts in any of such funds or accounts.

“Net Water and Sewer Revenues” means, for any Fiscal Year or other period, the Water and Sewer Revenues during such Fiscal Year or period less the Maintenance and Operation Costs during such Fiscal Year or period.

“Nominee” means the nominee of the Bond Depository, which may be the Bond Depository, as determined from time to time pursuant to the Indenture.

“Notice Parties” means the District, the Trustee, the Remarketing Agent and the Liquidity Provider, if applicable.

“Notice of Change in Mode” means the notice required to be delivered by the District to the other Notice Parties prior to any Change in Mode as described in the Official Statement under the caption “THE 2021B BONDS—Changes in Mode.”

“Opinion of Bond Counsel” means a written opinion of Bond Counsel.

“Outstanding,” when used as of a particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds delivered under the Indenture except: (a) Bonds cancelled by the Trustee or surrendered to the Trustee or for cancellation; (b) Bonds paid or deemed to have been paid as described under the caption “DEFEASANCE—Defeasance of Bonds;” and (c) Bonds in lieu of or in substitution for which replacement Bonds have been executed by the District and delivered by the Trustee under the Indenture.

Notwithstanding the foregoing, Bonds registered in the name of the Liquidity Provider or its nominee pursuant to the Indenture will remain Outstanding in the hands of the Liquidity Provider until the Liquidity Provider is paid all amounts due on such Bonds. Furthermore, Bonds, the principal of which was paid with a draw on the Liquidity Facility, which draw has not been reimbursed, will remain Outstanding until the Liquidity Provider is reimbursed in full for such draw.

“Owner” means the registered owner of a Bond, including the Bond Depository for the Bonds, if any, or its Nominee.

“Paired Obligation Provider” means a party to a Paired Obligation other than the District.

“Paired Obligations” means any Parity Bond or Contract (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, and which complies with the provisions that are described under the caption “MISCELLANEOUS—Paired Obligation Provider Guidelines.”

“Parity Bonds” means the 2016A Bonds, the 2017C Bonds, the 2018A Bonds, the 2018B Bonds and all other revenue bonds or notes and all other obligations of the District authorized, executed, issued and delivered by the District, the payments of which are payable from Net Revenues on a parity with the Bonds and which are secured by a pledge of and lien on Net Revenues as described in the Indenture. The term “Parity Bonds” as defined in the Indenture does not have the meaning assigned to the term “Bonds” in the Master Resolution, and “Parity Bonds” as defined in the Indenture constitute “Subordinate Obligations” under the Master Resolution so long as the Master Resolution is operative.

“Parity Obligations” means all revenue bonds, contracts and other obligations of the District (excluding contracts entered into for maintenance and operation of the Water and Sewer System) which are secured by a pledge of and lien on the Net Water and Sewer Revenues and payable from Net Water and Sewer Revenues on a senior basis to Parity Bonds and Contracts.

“Participant” means an entity which is recognized as a participant in the book-entry system of maintaining records with respect to the Bonds by the Bond Depository.

“Permitted Investments” means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the District’s funds, as determined by the District: (A) Federal Securities; (B) for all purposes other than defeasance investments in refunding escrow accounts: (1) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including the Export Import Bank; Farmers Home Administration; General Services Administration; U.S. Maritime

Administration; Small Business Administration; Government National Mortgage Association (GNMA); U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration; (2) bonds, notes or other evidences of indebtedness rated “AAA” and “Aaa” by the applicable Rating Agency issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years; (3) U.S. dollar denominated deposit accounts, certificates of deposit, federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee and its affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (4) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s and which matures not more than 270 days after the date of purchase; (5) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services; (6) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice and which are rated, based on the escrow, in the highest rating category of S&P and Moody’s, or any successor thereto; (7) any Investment Agreement; (8) the Local Agency Investment Fund of the State of California; and (9) any other investment permitted by law.

“Principal Account” means the account so defined and created in the Indenture.

“Principal Payment Date” means, prior to and on the Conversion Date, July 1 of each of the years specified in the Indenture and, after the Conversion Date, each Serial Maturity Date and July 1 of each year from the year next succeeding the year containing the last Serial Maturity Date, as determined as described in the Official Statement under the caption “THE 2021B BONDS—Changes in Mode” through the Maturity Date, inclusive.

“Purchase Fund” means the fund so defined and created in the Indenture.

“Purchase Price” means: (a) with respect to any Bonds to be purchased on any Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date which is not an Interest Payment Date, an amount equal to 100% of the principal amount of any Bonds purchased on such date, plus unpaid accrued interest, if any, to such date; and (b) with respect to any Bonds to be purchased on any Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date which is an Interest Payment Date, an amount equal to 100% of the principal amount of any Bonds purchased on such date.

“Rate Determination Date” means, with respect to any Adjusted Interest Rate for any Adjustment Period, the date on which such Adjusted Interest Rate is determined, which: (a) in the case of the Flexible Rate Mode and the Term Rate Mode, is the first day of such Adjustment Period; (b) in the case of the Daily Mode is each Business Day; (c) in the case of the Weekly Mode, is each Wednesday or, if Wednesday is not a Business Day, the next succeeding day, or if such day is not a Business Day, then the Business Day next preceding such Wednesday; (d) in the case of the Monthly Mode, the Semi-Annual Mode or the Annual Mode, is the Business Day prior to the first day of such Adjustment Period; and (e) in the case of the Fixed Rate Mode, is a date determined by the Remarketing Agent which is at least one Business Day but no more than 10 Business Days prior to the Conversion Date.

“Rate Stabilization Fund” means the fund by that name established pursuant to the Master Resolution.

“Rating Agency” means Moody’s, S&P and Fitch, in each case to the extent that such entity is then rating the Bonds, and any other nationally recognized rating agency then rating the Bonds.

“Rating Confirmation Notice” means a notice from each Rating Agency confirming that the rating on the Bonds will not be lowered or withdrawn as a result of the action proposed to be taken.

“Rebate Fund” means the fund by that name established pursuant to the Indenture.

“Record Date” means with respect to Bonds in the Index Mode, 5:00 p.m. on the day prior to each Interest Payment Date.

“Redemption Date” means the date fixed for redemption of Bonds subject to redemption in any notice of redemption given in accordance with the terms hereof.

“Redemption Price” means, with respect to any Bonds to be redeemed pursuant to a provision of the Indenture, the amount specified in such provision as the Redemption Price for Bonds redeemed pursuant thereto.

“Reimbursement Agreement” means the reimbursement agreement, or corresponding agreement, if any, executed and delivered in connection with a Liquidity Facility.

“Remarketing Agent” means any investment banking firm which may at any time be appointed as Remarketing Agent as provided in the Indenture.

“Remarketing Agreement” means each remarketing or similar agreement relating to the Bonds by and between the District and a Remarketing Agent.

“Remarketing Proceeds Account” means the account so defined and created in the Indenture.

“Representation Letter” means the letter from the District to, or other instrument or agreement between the District and the then-current Bond Depository for the Bonds in which the District makes certain representations to, and agreements with, such Bond Depository with respect to the Bonds, the purchase and payment thereof, and delivery of notices with respect thereto.

“Responsible Officer” means, when used with respect to the Trustee, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, any senior associate, any associate or any other office of the Trustee within the Corporate Trust Office (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time are such officers, respectively, or to whom any corporate trust matter is referred at the Corporate Trust Office because of such person’s knowledge of and familiarity with the particular subject and having direct responsibility for the administration of the Indenture.

“Rule 15c2-12” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may from time to time be amended and supplemented.

“Scheduled Mandatory Tender” means the mandatory tender for purchase of Bonds in the Index Mode pursuant to the provisions of the Indenture and excludes any Unscheduled Mandatory Tender of Bonds in the Index Mode.

“Scheduled Mandatory Tender Date” means, with respect to the initial Tender Period, July 1, 2024, and, with respect to each subsequent Tender Period, the date determined by the District as described in the Official Statement under the captions “THE 2021B BONDS—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender—Determination of Scheduled Mandatory Tender Date” and “THE 2021B BONDS—Remarketing and Purchase of 2021B Bonds in Connection with Unscheduled Mandatory Tender—Determination of Scheduled Mandatory Tender Date.”

“Scheduled Mandatory Tender Failure” means the failure of the District to pay or provide for the payment of the Purchase Price of all Bonds required to be purchased on a Scheduled Mandatory Tender Date pursuant to the Indenture.

“Semi-Annual Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (e) of the definition of Adjustment Period.

“Serial Bonds” means the Bonds maturing on the Serial Maturity Dates, as determined as described in the Official Statement under the caption “THE 2021B BONDS—Changes in Mode.”

“Serial Maturity Dates” means the dates on which the Serial Bonds mature, as determined as described in the Official Statement under the caption “THE 2021B BONDS—Changes in Mode.”

“Serial Payments” mean the payments to be made in payment of the principal of the Serial Bonds on the Serial Maturity Dates.

“SIFMA” means the Securities Industry & Financial Markets Association (formerly the Bond Market Association).

“SIFMA Delayed Remarketing Period” means the period from and including the applicable Scheduled Mandatory Tender Date on which all of the Bonds bearing interest at a SIFMA Index Rate subject to purchase on such date as described in the Official Statement under the caption “THE 2021B BONDS—Remarketing and Purchase of 2021B Bonds in Connection with Scheduled Mandatory Tender” have not been purchased or remarketed to (but not including) the earlier to occur of: (1) the date on which all such Bonds are successfully purchased or remarketed; or (2) the date on which all of such Bonds have been deemed to have been paid and are no longer Outstanding pursuant to the Indenture.

“SIFMA Delayed Remarketing Period Rate” means, during any SIFMA Delayed Remarketing Period, the following per annum interest rate on the Bonds:

<i>For the Period (in Days) from the applicable Scheduled Mandatory Tender Date on which such SIFMA Delayed Remarketing Period commences</i>	<i>Interest Rate</i>
0-89 days	6.00%
90-179 days	8.00%
180 days and thereafter	Maximum Rate

Notwithstanding any of the foregoing, the SIFMA Delayed Remarketing Period Rate may not exceed the Maximum Rate.

“SIFMA Index” means, for any SIFMA Index Reset Date, the level of the index which is issued weekly and which is compiled from the weekly interest rate resets of tax exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by SIFMA and issued on Wednesday of each week, or if any Wednesday is not a Business Day, the next succeeding Business Day. If the SIFMA Index is no longer published, then “SIFMA Index” will mean the S&P Weekly High Grade Index. If the S&P Weekly High Grade Index is no longer published, then “SIFMA Index” will mean the prevailing rate determined by the Calculation Agent for tax exempt state and local government bonds meeting criteria determined in good faith by the Calculation Agent to be comparable under the circumstances to the criteria used by SIFMA Index to determine the SIFMA Index immediately prior to the date on which SIFMA Index ceased publication of the SIFMA Index. Notwithstanding anything in the Indenture to the contrary, if the SIFMA Index as determined as provided above would be less than 0.0%, then the SIFMA Index will be deemed to be 0.0%.

“SIFMA Index Rate Conversion Date” means: (a) the date on which the Bonds begin to bear interest at the SIFMA Index Rate; or (b) if the Bonds are currently bearing interest at the SIFMA Index Rate, any Unscheduled Mandatory Tender Date.

“SIFMA Index Determination Date” means Wednesday of each week, or if any Wednesday is not a Business Day, the next succeeding Business Day.

“SIFMA Index Rate” means a per annum rate of interest established on each SIFMA Index Determination Date equal to the sum of: (a) the Index Spread; plus (b) the SIFMA Index.

“SIFMA Index Rate Period” means each period from and including a SIFMA Index Rate Conversion Date to but excluding the earliest of: (a) the immediately succeeding Unscheduled Mandatory Tender Date; (b) the immediately succeeding Conversion Date; and (c) the Maturity Date.

“SIFMA Index Reset Date” means Thursday of each week.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, and its successors and assigns, except that if such entity is dissolved or liquidated or no longer performs the functions of a securities rating agency, then “S&P” will be deemed to refer to any other nationally recognized securities rating agency rating the Bonds at the request of the District..

“State” means the State of California.

“State Contracts” means, collectively: (i) Safe Drinking Water State Revolving Fund Loan Contract No. SRF02LMX101, dated March 3, 2005, by and between the District and DWR, relating to the Hemet Water Filtration Plant (Project No. 3310009-52), in the original principal amount of approximately \$42,098,388; (ii) State Revolving Fund Loan Contract No. 08-845-550, dated June 23, 2009, by and between the District and SWRCB, relating to the Moreno Valley Regional Water Reclamation Facility Secondary Clarifier and Tertiary Treatment Project (Project No. C-06-5100-110), in the original approved principal amount of approximately \$38,302,852, as amended; (iii) Amended Finance Agreement No. 09-809-550, dated September 15, 2009, by and between the District and SWRCB, relating to the Moreno Valley Regional Water Reclamation Facility Acid Phase Anaerobic Digestion Project (Project No. C 06-5311-110), as amended by Amendment No. 1 thereto, dated January 29, 2010, Amendment No. 2 thereto dated April 6, 2010 and Amendment No. 3 thereto dated April 11, 2016, in the original approved principal amount of approximately \$43,908,096; (iv) Installment Sale Agreement and Grant No. D15-01017, dated January 7, 2016, by and between the District and SWRCB, relating to the Recycled Water Pond Optimization and Expansion Project (Project No. C-06-7831-110), in the original approved principal amount of approximately \$11,246,300, as amended by Amendment No. 1 dated April 11, 2016; (v) Installment Sale Agreement (100% PF) No. D15-02009, dated July 12, 2016, by and between the District and SWRCB, relating to the County Water Company Consolidation Project (Project No. 3310009-067C), in the original approved principal amount of approximately \$2,986,500; (vi) Installment Sale Agreement and Grant No. D-16-01036 (Water Recycling Project No. C-06-8047-110), by and between the District and SWRCB, relating to the Recycled Water Supply Optimization Program, dated July 12, 2017, in the original approved principal amount of \$95,264,880; (vii) Construction Loan 100% PF No. D-17-01031 (Project No. C-06-8165-110), by and between the District and SWRCB, relating to the Alessandro Pond Optimization Project, dated April 13, 2018; and (viii) Any future loans by and between the District and any State entity that are payable from Net Revenues on a parity with Parity Bonds and Contracts.

“Subordinate Obligation Payment Fund” means the fund by that name established pursuant to the Master Resolution and, in the event that the Master Resolution is no longer operative, continued pursuant to the Indenture.

“Substitution Date” means the date upon which a new Liquidity Facility is substituted for the Liquidity Facility then in effect.

“Supplemental Indenture” means any supplemental indenture modifying, supplementing or amending the Indenture as theretofore in effect entered into by the District and the Trustee in accordance with the Indenture.

“SWRCB” means the State of California Water Resources Control Board.

“Tax Certificate” means that certificate signed by the District on the date of the initial issuance of the Bonds relating to the requirements of Sections 103 and 141-150 of the Code.

“Tender Period” means, with respect to Bonds bearing interest in an Index Mode, a period determined as described in the Official Statement under the caption “THE 2021B BONDS—Determination of Index Tender Rates and Index Rate Accrual Periods for 2021B Bonds in Index Mode—Duration of Tender Period.”

“Tender Period Standard Date” means, with respect to any Tender Period, during an Index Mode, the date which is six months prior to the Scheduled Mandatory Tender Date for such Tender Period.

“Term Rate” means the Adjusted Interest Rate for a Term Rate Bond for the applicable Adjustment Period determined pursuant to the Indenture.

“Term Rate Bonds” means the Bonds during the Term Rate Mode.

“Term Rate Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (b) of the definition of Adjustment Period and each such Adjustment Period is greater than one year.

“Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or any other bank or trust company duly incorporated and existing under and by virtue of the laws of any state or of the United States of America, which may be substituted in its place as provided in the Indenture.

“Trust Estate” has the meaning ascribed to it in the recitals of the Indenture, including Net Revenues and moneys and securities held in accounts of the Indenture (except the Rebate Fund).

“2015B Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of July 1, 2015, by and between the District and the Authority, relating to the Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2015B.

“2016A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2016A issued by the District pursuant to the Indenture of Trust, dated as of April 1, 2016, by and between the District and the Trustee.

“2016B Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of September 1, 2016, by and between the District and the Authority, relating to the Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2016B.

“2017C Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2017C issued by the District pursuant to the Indenture of Trust relating thereto, dated as of May 1, 2017, by and between the District and the Trustee.

“2017D Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of May 1, 2017, by and between the District and the Authority, relating to the Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2017D.

“2018A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018A issued by the District pursuant to the Indenture of Trust relating thereto, dated as of September 1, 2018, by and between the District and the Trustee.

“2018B Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2018B issued by the District pursuant to the Indenture of Trust relating thereto, dated as of September 1, 2018, by and between the District and the Trustee.

“2020A Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of May 1, 2020, by and between the District and the Authority, relating to the Eastern Municipal Water District Financing Authority Refunding Water and Wastewater Revenue Bonds, Series 2020A.

“2021B Interest Account” means the account by that name in the 2021B Payment Fund established pursuant to the Indenture.

“2021B Payment Fund” means the fund by that name established pursuant to the Indenture.

“2021B Principal Account” means the account by that name in the 2021B Payment Fund established pursuant to the Indenture.

“2021B Redemption Fund” means the fund by that name established pursuant to the Indenture.

“Undelivered Bond” means any Bond that has not been delivered by its Owner to the Trustee in the place, at the time or in the manner specified in the Indenture, with the effects described in the Official Statement under the caption “THE 2021B BONDS—Undelivered Bonds.”

“Unscheduled Mandatory Tender” means any mandatory tender for purchase of Bonds in the Index Mode as described in the Official Statement under the caption “THE 2021B BONDS—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase.”

“Unscheduled Mandatory Tender Date” means a date for the mandatory tender of Bonds in the Index Mode as described in the Official Statement under the caption “THE 2021B BONDS—Mandatory Tender for Purchase—Unscheduled Mandatory Tender for Purchase.”

“Water and Sewer Revenue Fund” means the fund by that name established pursuant to the Master Resolution.

“Water and Sewer Revenues” means the Current Water and Sewer Revenues plus deposits to the Water and Sewer Revenue Fund from amounts on deposit in the Rate Stabilization Fund less amounts transferred from the Water and Sewer Revenue Fund to the Rate Stabilization Fund.

“Water and Sewer Service” means the water and sewer service furnished, made available or provided by the Water and Sewer System.

“Water and Sewer System” means: (i) all property rights, contractual rights and facilities of the District relating to water, including all facilities for the treatment, conservation, storage, transmission and distribution of water now owned by the District and all other properties, structures or works for the treatment, conservation, storage, transmission and distribution of water and the generation and delivery of hydroelectric power in connection therewith acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; and (ii) all property rights, contractual rights and facilities of the District relating to wastewater, including all facilities for the transporting, treating, neutralizing, stabilizing or disposing of wastewater now owned by the District and all other properties, structures or works for the transporting, treating, neutralizing, stabilizing or disposing of wastewater acquired and constructed by or for the District and determined by the District to be a part of the Water and Sewer System; together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof acquired and constructed.

“Weekly Mode” means the Mode in which the duration of each Adjustment Period is determined in accordance with clause (c) of the definition of Adjustment Period.

“Written Consent of the District,” “Written Order of the District,” “Written Request of the District” and “Written Requisition of District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of the District by an Authorized Representative or by any two persons (whether or not members of the Board of Directors of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

Indenture to Constitute Contract. In consideration of the acceptance of the Bonds by the Owners, the Indenture will be deemed to be and will constitute a contract among the District, the Trustee, as fiduciary for the benefit of the Owners, and the Owners to secure the full and final payment of the principal, Purchase Price and/or Redemption Price of, and interest on, the Bonds to the extent payable in accordance with the Indenture or the Law, and the application of all moneys on deposit or to be deposited in accordance with the Indenture, and the conditions,

covenants and terms contained therein required to be observed or performed by or on behalf of the District and the Trustee will be for the equal benefit, protection and security of all Owners without distinction, preference or priority of any Bonds over any other Bonds by reason of the number or date thereof or the time of authentication or delivery thereof or otherwise for any cause whatsoever, except as expressly provided in the Indenture. Subject to the provisions of the Indenture, the Indenture will remain in full force and effect so long as any Bonds remain Outstanding.

CONDITIONS AND TERMS OF BONDS

Authorization of Bonds. The Bonds do not constitute an obligation of the State of California or any political subdivision thereof other than the District as provided in the Indenture. No funds of the District, other than the funds included in the Trust Estate, are liable for the payment of the principal, Purchase Price or Redemption Price of, or interest on, the Bonds. Neither the faith and credit nor the taxing power of the District is liable for or pledged to the payment of the principal, Purchase Price or Redemption Price of, or interest on, the Bonds.

Any provision of the Indenture to the contrary notwithstanding, the District may, to the extent permitted by law, but is not obligated to, apply funds of the District not pledged to the payment of the Bonds pursuant to the Indenture to the payment of principal, Purchase Price and Redemption Price of, and interest on, the Bonds.

Denominations, Medium, Method and Place of Payment, Dating of Bonds; Book-Entry Bonds. (a) The Bonds will be issued in the form of fully registered Bonds in Authorized Denominations. The principal, Purchase Price and Redemption Price of, and interest on, the Bonds will be payable in lawful money of the United States of America. Except as otherwise provided in the Representation Letter, the interest on the Bonds will be payable on the Interest Payment Dates by check mailed on the applicable Interest Payment Date by the Trustee to the respective Owners thereof at their addresses as they appear on the applicable Record Date in the Bond Register, except that in the case of an Owner of \$1,000,000 or more in aggregate principal amount of Bonds, upon the written request of such Owner to the Trustee, received at least 10 days prior to a Record Date, specifying the account or accounts to which such payment will be made, payment of interest will be made by wire transfer of immediately available funds on the following Interest Payment Date. Any such request will remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Trustee. The principal, Purchase Price and Redemption Price of each Bond will be payable, on the due date thereof pursuant to the Indenture, upon surrender thereof at the Corporate Trust Office of the Trustee.

The Trustee and the District may treat the Owner of a Bond as the sole, exclusive and absolute owner thereof for all purposes, whether or not such Bond is overdue, and the Trustee and the District will not be affected by any knowledge or notice to the contrary; and payment of the principal, Purchase Price and Redemption Price of, and interest on, such Bond will be made only to such Owner, which payments will be valid and effectual to satisfy and discharge the liability on such Bond to the extent of the sum or sums so paid. All Bonds paid pursuant to the provisions of the Indenture will be cancelled by the Trustee and will not be redelivered.

Each Bond will be dated the date of authentication thereof and will bear interest from the immediately preceding Interest Payment Date, unless such date of authentication is after a Record Date and on or before the next succeeding Interest Payment Date, in which event such Bond will bear interest from and including such Interest Payment Date, or unless such date of authentication is prior to the initial Record Date for the Bonds, in which event any such Bond will bear interest from the date of original authentication and delivery of the Bonds, until the entire principal amount of such Bond is paid. If, at the time of authentication of any Bond, interest on such Bond is in default or overdue, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid in full or made available for payment in full on such Bond.

(b) In the event that: (i) DTC, or any successor as Bond Depository for the Bonds, determines not to continue to act as Bond Depository for the Bonds, or (ii) the District determines that the incumbent Bond Depository for the Bonds will no longer so act, and delivers a written certificate of the District Representative to such incumbent Bond Depository, the Remarketing Agent and the Trustee to that effect, then the District will discontinue the book-entry system with the incumbent Bond Depository for the Bonds. If the District determines to replace the incumbent Bond Depository for the Bonds with another Bond Depository, the District will prepare or direct the preparation of replacement Bonds for the Bonds registered in the name of the incumbent Bond Depository, or its

Nominee, to be registered in the name of such successor Bond Depository, or its Nominee, or make such other arrangements acceptable to the District, the Trustee, and the successor Bond Depository for the Bonds as are not inconsistent with the terms of the Indenture. If the District fails to identify a successor Bond Depository for the Bonds to replace the incumbent Bond Depository, then the Bonds will no longer be restricted to being registered in the Bond Register in the name of the incumbent Bond Depository or its Nominee, but will be registered in whatever name or names the incumbent Bond Depository for the Bonds, or its Nominee, designate. In such event the District will, at its expense, prepare, execute and deliver Bonds to the Trustee for authentication and delivery to carry out the transfers and exchanges provided in the Indenture. All such Bonds will be in fully registered form in Authorized Denominations.

Notwithstanding any other provision of the Indenture to the contrary, so long as any Bond is registered in the name of DTC, or its Nominee, all payments with respect to principal, Purchase Price and Redemption Price of, and interest on, such Bond, all tenders of such Bond for purchase and all notices with respect to such Bond, will be made and given, respectively, as provided in the Representation Letter.

In connection with any notice or other communication to be provided to Owners pursuant to the Indenture by the District or the Trustee with respect to any consent or other action to be taken by Owners, the District or the Trustee, as the case may be, will establish a record date for such consent or other action and give the incumbent Bond Depository, if any, notice of such record date not less than 15 calendar days in advance of such record date to the extent practicable.

Transfer and Exchange of Bonds. All Bonds are transferable or exchangeable by the Owner thereof, in person or by the Owner's attorney duly authorized in writing, at the Corporate Trust Office of the Trustee in the Bond Register, upon surrender of such Bonds accompanied by delivery of a duly executed written instrument of transfer or exchange in a form approved by the Trustee. Whenever any Bond or Bonds is surrendered for transfer or exchange, the Trustee will execute and deliver a new Bond or Bonds of Authorized Denominations of the same aggregate principal amount and terms, except that the Trustee may require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. Whenever in the Indenture provision is made for the cancellation by the Trustee of any Bonds, the Trustee will destroy such Bonds and deliver a certificate of such destruction to the District. All Bonds issued in exchange for Bonds pursuant to the Indenture be in the same Mode as the Bonds in exchange for which such Bonds were issued.

Bond Register. The Trustee will keep at its Corporate Trust Office the Bond Register for the registration of the ownership, transfer or exchange of the Bonds, which Bond Register is available for inspection by the District and the Trustee at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee will, under such reasonable regulations as it may prescribe, register the ownership, transfer or exchange of the Bonds in the Bond Register as provided in the Indenture. The ownership of any Bonds may be proved by the Bond Register required to be kept by the Trustee pursuant to the provisions of the Indenture.

Temporary Bonds. The Bonds may be initially delivered in temporary form exchangeable for definitive Bonds when ready for delivery, which temporary Bonds will be printed, lithographed or typewritten, will be of such denominations as may be determined by the Trustee, will be in fully registered form and will contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond will be authenticated and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Bonds. If the Trustee authenticates and delivers temporary Bonds, the District will prepare and execute and the Trustee will authenticate definitive Bonds without delay, and in that case upon demand of the Owner of any temporary Bonds such definitive Bonds will be exchanged without cost to such Owner for temporary Bonds at the office of the Trustee upon surrender of such temporary Bonds, and until so exchanged such temporary Bonds are entitled to the same benefit, protection and security under the Indenture as the definitive Bonds executed and delivered thereunder. All temporary Bonds surrendered pursuant to the provisions of the Indenture will be cancelled by the Trustee, will not be redelivered and will be disposed of as directed by the District.

Bond Mutilated, Destroyed, Lost or Stolen. If any Bond becomes mutilated, the Trustee will authenticate and deliver a new Bond of like tenor and number in lieu of the mutilated Bond, but only upon surrender to the Trustee of the mutilated Bond and provision of indemnification satisfactory to the Trustee, and every mutilated

Bond surrendered to the Trustee will be cancelled by it and will not be redelivered and will be disposed of as directed by the District. If any Bond is destroyed, lost or stolen, evidence of such destruction, loss or theft may be submitted to the Trustee and if such evidence is satisfactory to the Trustee, and the Trustee and the District receive indemnity satisfactory to them, the Trustee will authenticate and deliver a new Bond of like tenor and number in substitution for the destroyed, lost or stolen Bond. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond authenticated and delivered by it under the Indenture and of the expenses which may be incurred by it thereunder. Any replacement Bond authenticated and delivered under the provisions of the Indenture in lieu of or in substitution for any mutilated, destroyed, lost or stolen Bond will be equally and proportionately entitled to the benefit, protection and security of the Indenture with all other Bonds executed and delivered thereunder; and the Trustee is not required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds Outstanding thereunder, but both the original and the replacement Bond will be treated as one and the same. Notwithstanding any other provision of the Indenture, rather than authenticating and delivering a new Bond for a mutilated, destroyed, lost or stolen Bond which has matured, has been called for redemption or has become subject to mandatory tender for purchase, the Trustee may make payment of the principal of such mutilated, destroyed, lost or stolen Bond directly to the Owner thereof under such regulations as the Trustee may prescribe. To the extent permitted by law, the District has agreed to indemnify and hold harmless the Trustee from and against any claims, damages and losses (including legal fees and expenses), arising out of payment of principal of any stolen Bond.

Calculation Agent.

(a) The Calculation Agent will be the Trustee or such other person as the District may appoint meeting the requirements of clause (b) below. Any Calculation Agent which is not also the Trustee will designate its principal office and signify its acceptance of the duties and obligations imposed upon it under the Indenture by a written instrument of acceptance delivered to the District and the Trustee in which the Calculation Agent agrees to perform all calculations and provide all notices required of the Calculation Agent under the Indenture.

(b) The Calculation Agent must be duly organized under the laws of the United States of America or any state or territory thereof and authorized by law to perform all of the duties imposed upon it by the Indenture and may be the Trustee, the Liquidity Provider or any other Person, but may not be the District or an affiliate of the District. The Calculation Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 60 days' notice to the District, the Trustee, the Remarketing Agent and the Liquidity Provider, if any. Upon receipt of such notice, during any Mode in which the services of a Calculation Agent are required under the Indenture, the District will diligently seek to appoint a successor Calculation Agent to assume the duties of the Calculation Agent on the effective date of the prior Calculation Agent's resignation. In the event that the District fails to appoint a successor Calculation Agent in a timely manner when required under the Bond Indenture, the Trustee will either: (1) appoint a Calculation Agent to act as such; or (2) petition any court of competent jurisdiction for the appointment of a successor Calculation Agent, and such court may thereupon, after such notice, if any, as it may deem proper, appoint such successor Calculation Agent; provided however, that during the pendency of any such petition the Trustee will itself act as Calculation Agent, service in any such case will commence on the effective date of the resignation of the prior Calculation Agent and to remain in effect until a successor Calculation Agent assumes such position in accordance with the provisions of the Indenture. The Calculation Agent may be removed at any time by written notice from the District to the Trustee, the Purchaser, the Liquidity Provider, if any, and the Remarketing Agent, if any, provided that such removal will not be effective until a successor Calculation Agent assumes such position in accordance with the provisions of the Indenture.

(c) The Trustee will, within 30 days of the resignation or removal of the Calculation Agent or the appointment of a successor Calculation Agent, give notice thereof by Electronic Notice, confirmed by first class mail, to the registered owners of the Bonds.

(d) Promptly after determining any interest rate required to be determined by the Calculation Agent under the Indenture, the Calculation Agent will provide Electronic Notice to the District, the Trustee, the Remarketing Agent if any and any requesting Owner.

TENDER AND PURCHASE OF BONDS

Notice of Mandatory Tender of Bonds for Purchase. Notice of each mandatory tender of Bonds for purchase required by the Indenture will be given to the Owners as provided in the Indenture. Each such notice must state: (i) the Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable; (ii) (1) if the Bonds are registered in the name of a Bond Depository, the procedures for tendering such Bonds to receive the Purchase Price thereof in accordance with the procedures provided by such Bond Depository; or (2) if the Bonds are not registered in the name of a Bond Depository, that the Purchase Price of any Bond so tendered will be payable only upon surrender of such Bond to the Trustee at its Corporate Trust Office (which will be specified in such notice), together with an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the Owners thereof or their duly authorized attorney, with such signature medallion guaranteed by a bank, trust company or member firm of the New York Stock Exchange; (iii) that any Bond not so tendered for purchase as required will be deemed to have been so tendered and, upon provision for payment of the Purchase Price thereof from the applicable funds specified in the applicable provision of the Indenture, will be deemed to have been purchased on the Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable, after which no interest will accrue thereon for the benefit of the Owner required to so tender such Bond and such Owner will have no rights under the Indenture as the Owner of such Bond except the right to receive the Purchase Price thereof; and (iv) that, subject to the District's right to rescind a tender notice and the failure to meet purchase conditions, all Bonds subject to such mandatory tender for purchase will be purchased on the applicable Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, as applicable, at the applicable Purchase Price, but solely from the from the sources set forth in the applicable provision of the Indenture.

Liquidity Facility. (a) At any time and from time to time, the District may, but is not required to, cause a Liquidity Facility to be provided by a Liquidity Provider to secure the payment when due under the Indenture of the Purchase Price of Bonds. The District may cause any such Liquidity Facility to be terminated on any Business Day, subject to the provisions of the Indenture with respect to a Mandatory Purchase Date with respect to such termination. The District may, but is not required to, replace any terminating Liquidity Facility with a new Liquidity Facility.

(b) While a Liquidity Facility is in effect, on each Mandatory Purchase Date, and Scheduled Mandatory Tender Date, the Trustee will prior to 12:00 noon, draw on the Liquidity Facility in accordance with the terms thereof so as to receive thereunder by 1:00 p.m. on such date an amount, in immediately available funds, sufficient, together with the proceeds of the remarketing of Bonds on such date, to enable the Trustee to pay the Purchase Price of all Bonds due on such Mandatory Purchase Date or Scheduled Mandatory Tender Date, as applicable. In connection with any Mandatory Purchase Date due to the substitution of a new Liquidity Facility for a current Liquidity Facility, the Trustee will draw on the current Liquidity Facility and not the new Liquidity Facility to pay the Purchase Price of the Bonds in connection with said substitution. If the Trustee has not received the notice pursuant to the Indenture specifying the amount of proceeds of the remarketing of Bonds on a Mandatory Purchase Date or Scheduled Mandatory Tender Date, the Trustee will draw on the Liquidity Facility in an amount sufficient to enable the Trustee to pay the Purchase Price of all Bonds due on such Mandatory Purchase Date or Scheduled Mandatory Tender Date, as applicable. The proceeds of such draw will immediately be transferred to the Trustee, who will deposit said proceeds in the Liquidity Facility Purchase Account.

(c) Notwithstanding the provisions of clause (b) above, the Trustee will not draw on the Liquidity Facility with respect to any payments due or made in connection with Liquidity Provider-Owned Bonds, Bonds registered in the name of the District or Bonds held for the account of the District. The District has agreed to provide the Trustee written notice of any Bonds held for the account of the District and the Trustee may conclusively rely on such notice as to any Bonds held for the account of the District.

(d) If at any time there is delivered to the Trustee: (i) a new Liquidity Facility in substitution for a Liquidity Facility then in effect; (ii) a Favorable Opinion of Bond Counsel; and (iii) a written opinion of counsel to the provider of the new Liquidity Facility to the effect that such new Liquidity Facility constitutes the valid and binding agreement of the provider thereof; (iv) a rating for the Bonds upon the substitution of such new Liquidity Facility for the Liquidity Facility then in effect from each Rating Agency selected by the District; and (v) written evidence satisfactory to the Liquidity Provider for the current Liquidity Facility of the provision for purchase from

such Liquidity Provider of all Liquidity Provider-Owned Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due it under the Reimbursement Agreement on or before the effective date of the new Liquidity Facility, then the Trustee will accept such new Liquidity Facility on the Substitution Date and surrender the Liquidity Facility then in effect to the Liquidity Provider thereof after funds have been received by the Trustee pursuant to the draw to pay the Purchase Price of the Bonds in connection with the substitution. The District will give the Trustee and the Liquidity Provider written notice of the proposed substitution of a new Liquidity Facility for the Liquidity Facility then in effect no less than 40 days prior to the proposed Substitution Date.

(e) The Trustee may not sell, assign or otherwise transfer a Liquidity Facility, except to a successor Trustee under the Indenture and in accordance with the terms of the Liquidity Facility and the Indenture.

(f) The District has no obligation to maintain a Liquidity Facility in effect for any period of time regardless of which Mode is in effect for the Bonds. The Trustee may accept, hold and draw upon the Liquidity Facility issued by itself or by any of its corporate affiliates to provide security and a source of payment for the Bonds. The Trustee has covenanted that it will at all times maintain adequate controls to manage any potential conflict of interest. The Trustee will immediately tender its resignation and take prompt steps to have a successor trustee appointed satisfying the requirements of the Indenture if such affiliated Liquidity Provider fails at any time to honor a properly presented draw on the Liquidity Facility.

No Sales After Certain Defaults. The Remarketing Agent is not obligated to remarket Bonds pursuant to the Indenture if there has occurred and is continuing an Event of Default.

Purchase Fund. There has been established and there will be maintained with the Trustee, a separate fund to be known as “Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2021B, Purchase Fund” (the “Purchase Fund”). The Trustee will further establish a separate account within the Purchase Fund to be known as the “Liquidity Facility Purchase Account,” a separate account within the Purchase Fund to be known as the “Remarketing Proceeds Account” and a separate account within the Purchase Fund to be known as the “District Purchase Account.” The Trustee may establish such subaccounts in the accounts in the Purchase Fund as the Trustee may determine appropriate.

(a) Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of Bonds on a Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date, the Trustee will deposit such proceeds in the Remarketing Proceeds Account for application to the Purchase Price of the Bonds in accordance with the Indenture. Notwithstanding the foregoing, upon the receipt of the proceeds of a remarketing of Liquidity Provider-Owned Bonds, the Trustee will immediately pay such proceeds to the Liquidity Provider to the extent of any amount owing to the Liquidity Provider.

(b) Liquidity Facility Purchase Account. Upon receipt from the Trustee of the immediately available funds transferred to the Trustee pursuant to a draw on a Liquidity Facility, the Trustee will deposit such money in the Liquidity Facility Purchase Account for application to the Purchase Price of the Bonds on any Mandatory Purchase Date or Scheduled Mandatory Tender Date to the extent that the moneys on deposit in the Remarketing Proceeds Account are not sufficient. Any amounts deposited in the Liquidity Facility Purchase Account and not needed with respect to any Mandatory Purchase Date or Scheduled Mandatory Tender Date for the payment of the Purchase Price for any Bonds will be immediately returned to the Liquidity Provider.

(c) District Purchase Account. Upon receipt from the Trustee of the immediately available funds transferred to the Trustee by the District, the Trustee will deposit such money in the District Purchase Account for application to the Purchase Price of the Bonds to the extent that the moneys on deposit in the Remarketing Proceeds Account and the Liquidity Facility Purchase Account are not sufficient. Any amounts deposited in the District Purchase Account and not needed with respect to any Mandatory Purchase Date, Scheduled Mandatory Tender Date or Unscheduled Mandatory Tender Date for the payment of the Purchase Price for any Bonds will be promptly returned to the District.

(d) Investment. Amounts held in the Liquidity Facility Purchase Account and the Remarketing Proceeds Account by the Trustee will be held uninvested.

Bonds Not Payable from Liquidity Facility. In determining the amount of the Purchase Price of any Bond payable from a draw on a Liquidity Facility on any Mandatory Purchase Date or Scheduled Mandatory Tender Date, the Trustee may not take into consideration any Purchase Price due on Bonds registered in the name of the District or any affiliate of the District to the extent identified to a Responsible Officer of the Trustee in writing or in the name of the Liquidity Provider, and no demand for purchase under the applicable Liquidity Facility will be made to pay the Purchase Price of any Bonds registered in the name of the District or any affiliate of the District to the extent identified in writing to a Responsible Officer of the Trustee or in the name of the Liquidity Provider.

Notice of Remarketing of Liquidity Provider Bonds; Election Not to Sell Liquidity Provider Bonds. The Remarketing Agent will continue to use its best efforts to remarket Liquidity Provider Bonds at a price which, together with any moneys to be provided by the District under the Indenture, will equal the principal amount thereof plus accrued and unpaid interest thereon to such date. The Liquidity Provider (or any subsequent Owner of a Liquidity Provider Bond) has the right, by written notice or by telephonic notice, promptly confirmed in writing, to the Remarketing Agent and the Trustee, to elect not to sell the Liquidity Provider Bonds or any portion thereof. From and after any sale by the Remarketing Agent and receipt by the Trustee on behalf of the Liquidity Provider (or any subsequent Owner of the Liquidity Provider Bonds) of the Purchase Price therefor (including accrued interest to the date of delivery) and notification by the Liquidity Provider of the reinstatement of the applicable Liquidity Facility in the principal amount equal to such Liquidity Provider Bonds, or in the event of any such election not to sell the Liquidity Provider Bonds, such Bonds will cease to be Liquidity Provider Bonds and will bear interest as provided in the Indenture for Bonds other than Liquidity Provider Bonds.

FUNDS AND ACCOUNTS

Allocation of Net Revenues. There has been established with the Trustee the 2021B Payment Fund, which the Trustee has covenanted to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the Bonds received by the Trustee from the District will be promptly deposited by the Trustee upon receipt thereof into the 2021B Payment Fund; except that all moneys received by the Trustee and required under the Indenture to be deposited in the 2021B Redemption Fund will be promptly deposited therein. All payments of interest and principal on the Bonds deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also establish and hold a 2021B Interest Account and a 2021B Principal Account within the 2021B Payment Fund.

The Trustee will transfer from the 2021B Payment Fund and deposit into the following respective accounts, the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) 2021B Interest Account. Not later than the Business Day preceding each Interest Payment Date, the Trustee will deposit in the 2021B Interest Account that sum, if any, required to cause the aggregate amount on deposit in the 2021B Interest Account to be at least equal to the amount of interest becoming due and payable on the succeeding Interest Payment Date on all 2021B Bonds then Outstanding (including any Liquidity Provider-Owned Bonds). No deposit need be made into the 2021B Interest Account so long as there is in such account moneys sufficient to pay the interest becoming due and payable on such date on all Bonds then Outstanding.

(b) 2021B Principal Account. Not later than the Business Day preceding each Interest Payment Date on which the principal of the Bonds (including any Liquidity Provider-Owned Bonds) become due and payable under the Indenture, the Trustee will deposit in the 2021B Principal Account that sum, if any, required to cause the aggregate amount on deposit in the 2021B Principal Account to equal the principal amount of the Bonds coming due and payable on the succeeding Interest Payment Date or subject to mandatory sinking fund redemption on the succeeding Interest Payment Date. No deposit need be made into the Principal Account so long as there is in such account moneys sufficient to pay the principal becoming due and payable on such date on all Bonds then Outstanding.

(c) Liquidity Provider Amounts. At any time that payment of principal or interest on the Bonds is not due and owing, moneys in the 2021B Payment Fund will be used to pay amounts owed by a Liquidity Provider certified by the Liquidity Provider to the District and the Trustee to be due and owing.

(d) Eligible Accounts. In the event that any account required to be an Eligible Account no longer complies with such requirements, the Trustee will promptly (and, in any case, within not more than 30 calendar days) move such account to another financial institution such that the Eligible Account requirement again will be satisfied.

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments. Such investments will be directed by the District pursuant to a Written Request of the District filed with the Trustee at least two Business Days in advance of the making of such investments (which directions will be promptly confirmed to the Trustee in writing). In the absence of any such directions from the District, the Trustee will invest any such moneys in Permitted Investments described in clause (B)(5) of the definition thereof; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received a written direction from the District specifying a specific money market fund and, if no such written direction from the District is so received, the Trustee will hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the 2021B Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds (other than the Rebate Fund, the Liquidity Facility Purchase Account and the Remarketing Proceeds Account, which may not be commingled and, as to the Liquidity Facility Purchase Account and the Remarketing Proceeds Account, which will be held uninvested) held by it under the Indenture upon the Written Request of the District. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee will incur no liability for losses arising from any investments made pursuant to the foregoing provisions.

The District has acknowledged that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District has specifically waived receipt of such confirmations to the extent permitted by law. The District has further understood that trade confirmations for securities transactions effected by the Trustee will be available upon request at no additional cost and other trade confirmations may be obtained from the applicable broker. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions effected by the Trustee under the Indenture or brokers selected by the District. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture. The District will invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but will account for each separately. In making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those available through the Trustee's accounting system.

Application of 2021B Interest Account. Except as otherwise provided in the Indenture, all amounts in the 2021B Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds (including any Liquidity Provider-Owned Bonds) as it becomes due and payable (including accrued interest on any Bonds (including any Liquidity Provider-Owned Bonds) purchased prior to maturity pursuant to the Indenture) or to reimburse a Liquidity Provider on the date thereof for a drawing on the Liquidity Facility to pay the interest portion of the Purchase Price of the Bonds.

Application of 2021B Principal Account. Except as otherwise provided in the Indenture, all amounts in the 2021B Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds (including Liquidity Provider-Owned Bonds, if any) at maturity, mandatory sinking fund redemption or purchase or to reimburse a Liquidity Provider on the date thereof for a drawing on the Liquidity Facility to pay the principal component of the Purchase Price of the Bonds; provided, however, that at any time prior to selection for redemption of any such Bonds, upon written direction of the District, the Trustee will apply such amounts to the purchase of Bonds 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 2021B Interest Account) as is directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the Bonds.

Application of 2021B Redemption Fund. There has been established with the Trustee a special fund designated as the “2021B Redemption Fund.” All amounts in the 2021B Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the Bonds (including Liquidity Provider-Owned Bonds, if any) to be redeemed on any Redemption Date pursuant to the Indenture (other than mandatory redemption payments described therein or as required by the Liquidity Facility with respect to Liquidity Provider-Owned Bonds; provided, however, that at any time prior to selection for redemption of any such Bonds, upon written direction of the District, the Trustee will apply such amounts to the purchase of Bonds 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 2021B Interest Account) as directed pursuant to a Written Request of the District, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the Bonds. The 2021B Redemption Fund is an Eligible Account held in trust for the benefit of the Owners.

Rebate Fund.

(a) Establishment. The Trustee will establish a fund for the Bonds designated the “Rebate Fund” when needed. Absent an Opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the District will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the Bonds will be governed by the Indenture and the Tax Certificate, unless and to the extent that the District delivers to the Trustee an Opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained in the Indenture or in the Tax Certificate, the Trustee: (1) will be deemed conclusively to have complied with the provisions thereof if it follows all Written Requests of the District; (2) has no liability or responsibility to enforce compliance by the District with the terms of the Tax Certificate; (3) may rely conclusively on the District’s calculations and determinations and certifications relating to rebate matters; and (4) has no responsibility to independently make any calculations or determinations or to review the District’s calculations or determinations thereunder.

(i) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the District will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code has been made), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The District will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the foregoing provisions.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Request of the District, an amount will be deposited to the Rebate Fund by the Trustee from any Net Revenues legally available for such purpose (as specified by the District in the aforesaid Written Request), if and to the extent required so that the balance in the Rebate Fund equals the amount of Rebatable Arbitrage so calculated in accordance with clause (i) above. In the event that immediately following the transfer required by the previous

sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of the District, the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the 2021B Interest Account.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Written Request of the District, to the United States Treasury, out of amounts in the Rebate Fund: (A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebateable Arbitrage calculated as of the end of such Bond Year; and (B) Not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebateable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebateable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the District will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the foregoing provisions will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the District), or will be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the Bonds and the payments described in clause (a) above being made may be withdrawn by the District and utilized in any manner by the District.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the Rebate Fund requirements of the Indenture will survive the defeasance or payment in full of the Bonds.

Application of Funds and Accounts When No Bonds are Outstanding. On the date on which all Bonds are retired under the Indenture or provision made therefor pursuant to the defeasance provisions of the Indenture and after payment of all amounts due the Trustee and the Liquidity Provider under the Indenture, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the District for use by the District at any time for any purpose permitted by law.

COVENANTS

Punctual Payment. The District will punctually pay or cause to be paid the principal and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The District will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest are extended, such Bonds or claims for interest are not entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Indenture will be deemed to limit the right of the District to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The District will not make any pledge of or place any lien on Net Revenues or the moneys in the Subordinate Obligation Payment Fund except as provided in the Indenture. The District may at any time, or from time to time, execute Contracts or issue Parity Bonds as permitted therein. The District may also at any time, or from time to time, incur evidences of indebtedness or incur other obligations for any lawful purpose

which are payable from and secured by a pledge of and lien on Net Revenues or any moneys in the Subordinate Obligation Payment Fund as may from time to time be deposited therein, provided that such pledge and lien is subordinate in all respects to the pledge of and lien thereon provided in the Indenture.

Power to Issue Bonds and Master Note and Make Pledge and Assignment. The District is duly authorized pursuant to law to issue the Bonds and the Master Note (as provided in the Indenture) and to enter into the Indenture and to pledge and assign the Net Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the Master Note (if and to the extent executed and delivered as provided in the Indenture) and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the District in accordance with their terms, and the District and the Trustee will at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of the Net Revenues and other assets and all the rights of the Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements.

(a) The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries are made of all transactions made by it relating to the proceeds of Bonds and all funds and accounts established by it pursuant to the Indenture. Such books of record and account will be available for inspection by the District upon reasonable prior notice during business hours and under reasonable circumstances.

(b) The District will keep appropriate accounting records in which complete and correct entries are made of all transactions relating to the Water and Sewer System, which records will be available for inspection by the Trustee (which has no duty to inspect such records) at reasonable hours and under reasonable conditions.

(c) The District will prepare and file with the Trustee annually within 270 days after the end of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2021) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon. The Trustee has no duty to review such financial statements.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an Opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds will not be adversely affected for federal income tax purposes, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action and will refrain from taking any action, and the District will make no use of the proceeds of the Bonds or of any other moneys or property, which would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, and the District will not take any action or refrain from taking any action, which will cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The District will make no use of the proceeds of the Bonds, and the District will not take or omit to take any action, that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code necessary to preserve the exclusion of interest on the Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, and the District will not take any action or refrain from taking any action that

would cause the Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes; and

(f) Miscellaneous. The District will not take any action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed by the District in connection with the issuance of the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

The tax covenants set forth in the Indenture are not applicable to, and nothing contained therein will be deemed to prevent the District from causing the Trustee to issue revenue bonds or to execute and deliver contracts payable on a parity with the Bonds, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Waiver of Laws. The District will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time later in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws has expressly waived by the District to the extent permitted by law.

Further Assurances. The District will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the District and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Observance of Laws and Regulations. To the extent necessary to assure its performance under the Indenture, the District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or later imposed on the District by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or later acquired by the District, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Continuing Disclosure. The District has covenanted and agreed that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed and delivered by the District in connection with the issuance of the Bonds. Notwithstanding any other provision of the Indenture, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations thereunder.

Enforcement of Contracts. The District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or later entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the District to pay principal of and interest on the Bonds when due, without any discrimination preference.

Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Water and Sewer System or any part thereof necessary to secure adequate Net Revenues for the payment of the principal of and interest on the Bonds, or which would otherwise impair the operation of the Water and Sewer System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water and Sewer System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the District to pay the principal of and interest on the Bonds and if the proceeds of such sale are deposited in the Water and Sewer Revenue Fund.

Nothing in the Indenture restricts the ability of the District to sell any portion of the Water and Sewer System if such portion is immediately repurchased by the District and if such arrangement cannot by its terms result

in the purchaser of such portion of the Water and Sewer System exercising any remedy which would deprive the District of or otherwise interfere with its right to own and operate such portion of the Water and Sewer System.

Against Competitive Facilities. To the extent that it can so legally obligate itself, the District has covenanted that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any water or sewer system competitive with the Water and Sewer System.

Maintenance and Operation of the Water and Sewer System. The District will maintain and preserve the Water and Sewer System in good repair and working order at all times, operate the Water and Sewer System in an efficient and economical manner and pay all Maintenance and Operation Costs as they become due and payable.

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or the funds or accounts created under the Indenture or on any funds in the hands of the District pledged to pay the principal of or interest on the Bonds or to the Owners prior or superior to the lien under the Indenture.

Insurance.

(a) The District will procure and maintain or cause to be procured and maintained insurance on the Water and Sewer System with responsible insurers in such amounts and against such risks (including damage to or destruction of the Water and Sewer System) as are usually covered in connection with facilities similar to the Water and Sewer System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Water and Sewer System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Water and Sewer System. The District will begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same are completed and the Water and Sewer System is free and clear of all claims and liens.

(b) The District will procure and maintain such other insurance as it deems advisable or necessary to protect its interests and the interests of the Bond Owners, which insurance affords protection in such amounts and against such risks as are usually covered in connection with municipal water and sewer systems similar to the Water and Sewer System.

(c) Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water and sewer systems similar to the Water and Sewer System and is, in the opinion of an accredited actuary, actuarially sound.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may later be lawfully imposed upon the Water and Sewer System, or any part thereof or upon the Net Revenues when the same becomes due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water and Sewer System, or any part thereof, but the District is not required to comply with any regulations or requirements so long as the validity or application thereof is contested in good faith.

Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water and Sewer Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Eminent Domain Proceeds. If all or any part of the Water and Sewer System is taken by eminent domain proceedings, the Net Proceeds thereof will be applied to the acquisition and construction of additions, betterments, extensions or improvements to the Water and Sewer System, and any balance of such Net Proceeds not required by the District for such purpose will be deposited in the Water and Sewer Revenue Fund.

Enforcement of Contracts. The District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or later entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the District to pay principal of and interest on the Bonds.

Additional Parity Obligations. The District may enter into additional Parity Obligations in accordance with the Master Resolution at any time.

DEFAULT AND LIMITATIONS OF LIABILITY

Events of Default. If any of the following events occur, it is declared to constitute an “Event of Default”:

(a) Default by the District in the due and punctual payment of the principal of any Bonds, the principal of any Parity Bonds or the principal with respect to any Contract, when and as the same become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise;

(b) Default by the District in the due and punctual payment of any installment of interest on any Bonds, any installment of interest on any Parity Bond or any installment of interest with respect to any Contract, when and as the same become due and payable;

(c) Default in the punctual payment Purchase Price of any Outstanding Bond when due on any Mandatory Purchase Date; and

(d) Default by the District in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds, or required by any Parity Bond or indenture relating thereto or by any Contract, if such default has continued for a period of 60 days after written notice thereof specifying such default and requiring the same to be remedied has been given to the District by the Trustee or by the Owners of not less than a majority in aggregate principal amount of Bonds Outstanding, a majority in principal amount of such Parity Bond outstanding, or a majority in principal amount outstanding with respect to such Contract, as applicable; provided, however, that if in the reasonable opinion of the District the default stated in the notice can be corrected, but not within such 60 day period, and corrective action is instituted by the District within such 60 day period and diligently pursued in good faith until the default is corrected, such default will not be an Event of Default under the Indenture.

(e) The Liquidity Facility Provider, if any, has notified the Trustee that an “Event of Default” or “Default” has occurred and is continuing under the Liquidity Facility.

(f) The District files 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 approves a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the District or of the whole or any substantial part of its property.

If an Event of Default occurs and is continuing, the Trustee will Mail notice or provide Electronic Notice of the Event of Default to the Owners as promptly as practicable after it occurs. Notwithstanding anything to the contrary in the Indenture or in the Bonds, the occurrence of a Scheduled Mandatory Tender Failure on any Scheduled Mandatory Tender Date does not constitute an Event of Default.

Remedies Upon Event of Default. If any Event of Default happens, and in each and every such case during the continuance of such Event of Default the Trustee, upon being provided with indemnity satisfactory to the

Trustee, or the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding will be entitled, upon notice in writing to the District to:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee of the District, and to compel the District or any such director, officer or employee of the District to observe or perform its or his duties under applicable law and the agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by it or him;

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

(c) by suit in equity upon the happening of any default under the Indenture to require the District and the directors, officers and employees of the District to account as the trustee of an express trust.

The Trustee and the Owners have no right to accelerate the principal of or interest on the Bonds.

Notwithstanding anything contained in the Indenture, the Owners of the Bonds do not have a security interest in or mortgage on the Water and Sewer System or any other assets of the District other than the Net Revenues, the Subordinate Obligation Payment Fund and the other funds and accounts created thereunder, and no Event of Default thereunder will result in the loss of the Water and Sewer System or any other assets of the District other than the Net Revenues, the Subordinate Obligation Payment Fund and the other funds and accounts created thereunder.

Application of Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than amounts held in the Rebate Fund) will be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of any expenses of the Liquidity Provider, if any, incurred in and about the performance of its powers and duties in connection with such Event of Default;

(c) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid), in accordance with the provisions of the Indenture, the payment of the principal and interest then due with respect to the Contracts in accordance with the provisions thereof and the payment of the principal of and interest then due on the Parity Bonds in accordance with the provisions thereof and of any indenture related thereto, in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with respect to the Contracts or on the Parity Bonds, as applicable, in the order of the maturity of such installments, and, if the amount available are not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds, principal with respect to the Contracts or principal of the Parity Bonds, as applicable, which have become due, whether at maturity or by redemption, and, if the amount available is not sufficient to pay in full all of the Bonds, all amounts due under the Contracts or all of the Parity Bonds, as applicable, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference;

(d) To the payment of any remaining amounts owing to the Liquidity Provider, if any, under a Liquidity Facility; and

(e) If there exists any remainder after the foregoing payments, such remainder will be paid to the District.

Waiver of Past Defaults. The Owners of a majority in principal amount of Outstanding Bonds, by notice to the Trustee may waive an existing Event of Default and its consequences. When an Event of Default is waived, it is cured and stops continuing, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent to it.

Control by Majority of Owners. The Owners of a majority in aggregate principal amount of Bonds Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on it; provided that such Owners have satisfied the requirements under the Indenture for giving such instructions, including providing indemnification to the Trustee. The Trustee may refuse to follow any direction that it determines, in its sole opinion, conflicts with law or the Indenture or may result in the Trustee being exposed to personal liability or that the Trustee determines is unduly prejudicial to the rights of other Owners.

Limitation on Suits. An Owner may not pursue any remedy pursuant to the Indenture or pursuant to the Bonds unless: (a) the Owner gives the Trustee written notice stating that an Event of Default has occurred and is continuing; (b) the Owners of at least 50% in principal amount of the Outstanding Bonds make a written request to the Trustee to pursue the remedy; (c) such Owner or Owners offer to the Trustee indemnity satisfactory to the Trustee (in its sole opinion) against any loss, liability or expense; (d) the Trustee does not comply with such request within 60 days after receipt of the request and the offer of indemnity; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding. An Owner may not use the Indenture to prejudice the rights of another Owner or to obtain a preference or priority over any other Owner.

Rights of Owners to Receive Payment. Notwithstanding any other provision of the Indenture, the right of any Owner to receive payment when due of the principal or Redemption Price of and interest on its Bond or Bonds, or to bring suit for the enforcement of any such payment, may not be impaired or affected without the consent of the Owner.

Collection Suit by Trustee. If an Event of Default under clauses (a) or (b) under the caption “—Events of Default” occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the District for the whole amount remaining unpaid.

Trustee May File Proofs of Claim. The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Owners allowed in any judicial proceedings relative to the District or its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the Owners in any election of a trustee in bankruptcy or other person performing similar functions. Nothing in the Indenture will be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner of Bonds any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Owner of Bonds thereof, or to authorize the Trustee to vote in respect of the claim of any Owner of Bonds in any such proceeding without the approval of the Owners of Bonds so affected.

Termination of Proceedings. If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned by the Trustee or the Owners or determined adversely to the Trustee or the Owners, the District, the Trustee and the Owners will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Undertaking for Costs. In any suit for the enforcement of any right or remedy under the Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the

filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. The foregoing does not apply to a suit by the Trustee, a suit by an Owner pursuant to as described under the caption "—Right of Owners to Receive Payment" or a suit by Owners of more than 50% in aggregate principal amount of Bonds Outstanding.

THE TRUSTEE AND THE REMARKETING AGENT

Employment and Duties of the Trustee. The District has appointed and employed the Trustee to perform the obligations of the Trustee and paying agent contained in the Indenture, all in the manner provided therein and subject to the conditions and terms thereof.

Removal and Resignation of the Trustee. The Trustee may resign by notifying the District, subject to the conditions set forth below. The Owners of a majority in principal amount of the Outstanding Bonds may remove the Trustee by notifying the Trustee and may appoint a successor Trustee with the consent of the District and, when a Liquidity Facility is in effect and so long as the Liquidity Provider has not wrongfully dishonored a properly presented and conforming drawing on the Liquidity Facility, the prior written consent of the Liquidity Provider (which is under no liability by reason of giving or withholding such consent). The District will remove the Trustee by notifying the Trustee if: (a) the Trustee fails to meet the qualifications to act as a Trustee under the Indenture; (b) the Trustee is adjudged a bankrupt or an insolvent; (c) a receiver or other public officer takes charge of the Trustee or its property; or (d) the Trustee otherwise becomes incapable of acting, as determined by the District. Upon any such removal or resignation, the District, with the prior written consent of the Liquidity Provider, when a Liquidity Facility is in effect and so long as the Liquidity Provider has not wrongfully dishonored a properly presented and conforming drawing on the Liquidity Facility (which consent may not be unreasonably withheld, provided that the Liquidity Provider is under no liability by reason of giving or withholding such consent), will promptly appoint a successor Trustee by an instrument in writing, which successor Trustee will give notice of such appointment to all Owners as soon as practicable; provided that in the event that the District does not appoint a successor Trustee within 30 days following the giving of any such notice of removal or the receipt of any such notice of resignation, the removed or resigning Trustee may petition any appropriate court having jurisdiction to appoint a successor Trustee. Any successor Trustee must be a bank, national banking association or trust company doing business and having a Corporate Trust Office in either New York, New York or Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000 and subject to supervision or examination by state or national authorities. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture, the combined capital and surplus of such bank, national banking association or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any removal or resignation of a Trustee and appointment of a successor Trustee will become effective only upon the acceptance of the appointment by the successor Trustee and the transfer by the retiring Trustee to the successor Trustee of all property held by it under the Indenture as Trustee, including the transfer to the successor Trustee of the Liquidity Facility in accordance with its terms.

Compensation and Indemnification of the Trustee. The District will from time to time, subject to any agreement then in effect with the Trustee, pay the Trustee compensation for its services and reimburse the Trustee for all its advances and expenditures under the Indenture, including but not limited to advances to and fees and expenses of accountants, agents, appraisers, consultants, counsels or other experts employed by it in the observance and performance of its rights and obligations thereunder; provided that the Trustee will not have any lien for such compensation or reimbursement against any money held by it in any of the funds established under the Indenture, although the Trustee may take whatever legal actions are available to it directly against the District to recover such compensation or reimbursement.

To the extent permitted by law, the District has assumed liability for, and agreed to indemnify and hold harmless the Trustee and its officers, directors, agents and employees from and against any and all claims, damages and losses (including legal fees and expenses) incurred by the Trustee without negligence or willful misconduct on the part of the Trustee, arising out of or in connection with: (a) any breach or default by the District of any of its

obligations under the Indenture; (b) the offering, issuance, sale or any resale of the Bonds; or (c) the acceptance or administration of its duties under the Indenture, as well as the costs and expenses of enforcing the Indenture against the District and defending itself against any claim (whether asserted by the District or an Owner or other third party and whether or not litigation is commenced) or liability in accordance with the exercise or performance in the absence of negligence or willful misconduct of any of its powers or duties thereunder. The failure of the Trustee to notify the District does not relieve the District of its obligations under the Indenture. The obligations under the Indenture will survive the termination and discharge of the Indenture and the resignation or removal of the Trustee.

When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Protection of the Trustee. The Trustee will be protected and incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it in good faith believes to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee is under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with its counsel with regard to legal questions arising under the Indenture, and the opinion of such counsel will be full and complete authorization and protection in respect to any action taken or suffered by it under the Indenture in the absence of negligence or willful misconduct.

Whenever in the observance or performance of its rights and obligations under the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof is specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a certificate of the District Representative, and such certificate will be full warranty to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as if it were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the District and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the District as freely as if it were not the Trustee under the Indenture.

The Trustee may act through agents, attorneys or co-trustees (which co-trustees, if any, are approved by the District) and is not responsible for the misconduct or negligence of any agent, attorney or co-trustee appointed with due care.

The Trustee is not liable for any action it takes or omits to take in good faith without negligence which it believes to be authorized or within its rights or powers.

The Trustee makes no representation as to the validity or adequacy of the Indenture or the Bonds or compliance with any federal or state securities laws, is not accountable for the District's covenants and representations contained in the Indenture or the recitals made therein which are made by the District solely, and is not responsible for any statement in the Bonds other than its certificate of authentication.

The Trustee has no responsibility with respect to any information, statement or recital in any Official Statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

The Trustee will not be deemed to have knowledge of an Event of Default under the Indenture, unless it has actual knowledge at its Corporate Trust Office.

The Trustee is not accountable for the use or application by the District of any of the Bonds or the proceeds thereof or for the use or application of any money paid over by the Trustee in accordance with the provisions of the Indenture or for the use and application of money received by any paying agent. The Trustee is not required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

The Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Indenture.

The Trustee has agreed to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that the Trustee has received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signature of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee is not liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding the fact that such instructions conflict or are inconsistent with a subsequent written instruction. The District has agreed to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

Duties of Trustee. (a) If an Event of Default has occurred and is continuing, the Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default: (1) The Trustee need perform only those duties that are specifically set forth in the Indenture and no others, and no implied covenants or obligations will be read into the Indenture against the Trustee; and (2) In the absence of negligence or willful misconduct on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture. However, the Trustee will examine these certificates and opinions to determine whether such documents conform to the requirements of the Indenture on their face.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (1) The foregoing does not limit the effect of clause (b) above; (2) The Trustee is not liable for any error of judgment made in good faith by a responsible officer of the Trustee, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; (3) The Trustee is not liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it by a majority of the Owners; and (4) No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly provided, every provision of the Indenture that in any way relates to the Trustee is subject to all the foregoing paragraphs.

(e) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it (in its sole opinion) against any loss, liability or expense, but the Trustee will not require indemnity as a condition to drawing on the Liquidity Facility, redeeming Bonds, making payment on the Bonds or providing for the purchase of Bonds on a Mandatory Purchase Date.

(f) The Trustee will not be liable for interest on any cash held by it except with respect to investment earnings as provided by the Indenture and as the Trustee may otherwise agree with the District.

- (g) The permissive right of the Trustee to act under the Indenture will not be construed as a duty.

Appointment of Remarketing Agent. The District may appoint a Remarketing Agent from time to time to remarket Bonds pursuant to the Indenture, and to keep such books and records as are consistent with prudent industry practice and to make such books and records available for inspection by the Liquidity Provider, the District and the Trustee at all reasonable times, and in accordance with the terms of the Indenture or the Remarketing Agreement, to give Electronic Notice, promptly confirmed by a written notice, to the Trustee (who will then promptly notify the Liquidity Provider and the Trustee), specifying: (a) the principal amount of such Bonds, if any, remarketed by it as provided in the Indenture; and (b) the interest rates on the remarketed Bonds as determined pursuant to and in accordance with the Indenture.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at 30 days' written notice to the Liquidity Provider, the District and the Trustee; provided that in the event a successor remarketing agent has not been appointed within such 30 day period, the Remarketing Agent's resignation and discharge from its duties and obligations created by the Indenture will not be effective until the earlier of: (i) the appointment of such successor; or (ii) 30 days from the expiration of the aforementioned 30 day notice period. The Remarketing Agent may be removed at any time, at the direction of the District, upon 30 days' prior written notice filed with the Remarketing Agent and the Trustee.

Any successor Remarketing Agent will be selected by the District and will be a member of FINRA, will have a capitalization of at least \$50,000,000 and will be authorized by law to perform all of the duties set forth in the Indenture. When a Liquidity Facility is in effect and so long as the Liquidity Provider has not wrongfully dishonored a properly presented and conforming drawing on the Liquidity Facility, the District will obtain the Liquidity Provider's prior written consent to the appointment of such successor Remarketing Agent, which consent may be withheld only for reasons related to the successor's capitalization and which may not be unreasonably withheld (provided that the Liquidity Provider will be under no liability by reason of giving or withholding such consent). The District's delivery to the Trustee of a certificate setting forth the effective date of the appointment of a successor Remarketing Agent and the name of such successor will be conclusive evidence that: (1) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of the Indenture; and (2) such successor has been appointed and is qualified to act as Remarketing Agent under the terms of the Indenture.

Successor Trustee or Remarketing Agent by Merger. If the Trustee or the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all of its assets (or, in the case of a bank, national banking association or trust company, its corporate trust assets) to, another corporation, the resulting, surviving or transferee corporation without any further act will be the successor Trustee or Remarketing Agent, as applicable.

AMENDMENT OF OR SUPPLEMENT TO INDENTURE

Amendments or Supplements Permitted. (a) The provisions of the Indenture and the rights and obligations of the District and of the Owners of the Outstanding Bonds and of the Trustee may be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, with the written consent of each Liquidity Provider whose consent is required by a Liquidity Facility, when the written consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (unless the consent of Owners is not required pursuant to clauses (b) or (c) below) has been filed with the Trustee; or if less than all of the Outstanding Bonds are affected, the written consent of the Owners of at least a majority in aggregate principal amount of all affected Outstanding Bonds (unless the consent of Owners is not required pursuant to clauses (b) or (c) below); provided that if such modification, amendment or supplement will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of the calculation of Outstanding Bonds for purposes of the foregoing. No such modification, amendment or supplement may: (1) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification, amendment or supplement without the consent of the Owners of all of the Bonds then Outstanding; (2) extend the fixed maturity of any Bond, or reduce the principal amount thereof payable upon mandatory redemption, or extend the due date of any mandatory redemption, or reduce the rate of interest on any Bond or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected; (3) reduce the Redemption Price due on the redemption of any Bond at the option of the District or change the date or dates when any Bond is subject to

redemption at the option of the District without the consent of the Owner of each Bond so affected; or (4) modify the rights or obligations of the Trustee without its consent.

It is not necessary for the consent of the Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent approves the substance thereof.

Whenever, at any time after the date of the providing of notice of the proposed entry into a Supplemental Indenture requiring the consent of the Owners of Bonds, the District has received an instrument or instruments in writing executed in accordance with the Indenture by or on behalf of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding whose consent is required pursuant to the Indenture, which instrument or instruments refer to the proposed Supplemental Indenture described in the notice of the proposed Supplemental Indenture and consent to such Supplemental Indenture in substantially the form referred to in such notice, thereupon, but not otherwise, the District and the Trustee may enter into such Supplemental Indenture in substantially such form, without liability or responsibility to any Owner of any Bond, whether or not such Owner has consented thereto.

(b) Subject to the provisions of clause (c) below, the Indenture, and the rights and obligations of the District, the Trustee and the Owners of the Outstanding Bonds, may also be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, which the District and the Trustee may enter into with the consent of each Liquidity Provider whose consent is required by a Liquidity Facility but without the consent of any Owners of Bonds (but with the consent of the Trustee if the modification, amendment or supplement affects the rights of the Trustee), so long as such modification, amendment or supplement does not materially, adversely affect the interests of the Owners of the Outstanding Bonds (as evidenced by the Favorable Opinion of Bond Counsel delivered under the Indenture), including without limitation, for any one or more of the following purposes: (1) to pledge, provide or assign any additional security for the Bonds; (2) to add to the covenants and agreements of the District contained in the Indenture or other covenants and agreements thereafter to be observed by the District or to surrender any right of power in the Indenture reserved to or conferred upon the District; (3) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the District may deem necessary or desirable; (4) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; (5) to provide for (or subsequently modify) an additional Mode for the Bonds and the provisions relating thereto. Such amendment will specify the period for payment of the interest, the manner, intervals and dates at which the rate will be set and the intervals and procedures by which the Bonds may be tendered for purchase. These changes will be noted on the Bonds in accordance with the Indenture, or an amended Bond form will be provided for in the amendment in order to reflect them; (6) to comply with the requirements of each Rating Agency; or (7) to transfer any Fund or account created in the Indenture held by the District as well as any money on deposit in any such Fund or account to the Trustee and to make such provisions for the purpose of correcting or supplementing any provision contained in the Indenture to reflect the transfer of such Fund or account.

(c) Notwithstanding anything to the contrary in the Indenture, the provisions of the Indenture may also be modified, amended or supplemented by a Supplemental Indenture or Supplemental Indentures, including amendments which would otherwise be described in clause (a) above, without the consent of the Owners of Bonds if either: (1) the effective date of such Supplemental Indenture is a date on which the Bonds are subject to mandatory tender for purchase pursuant to the Indenture; or (2) notice of the proposed Supplemental Indenture is given to Owners of all affected Bonds at least 30 days before the effective date of such Supplemental Indenture, and on or before such effective date, the Owners of such Bonds have the right to demand purchase of such Bonds pursuant to the Indenture.

(d) Notwithstanding anything to the contrary in the Indenture, no modification, amendment or supplement to the provisions of the Indenture will be effective until the District delivers to the Trustee a Favorable Opinion of Bond Counsel in connection with such modification, amendment or supplement.

Effect of Supplemental Indenture. Upon the District and the Trustee entering into any Supplemental Indenture pursuant to the Indenture, and satisfying the requirements of its clause (d) above, the Indenture will be deemed to be modified, amended or supplemented in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District, the Trustee and all Owners of Outstanding Bonds will thereafter be determined, exercised and enforced subject in all respects to such modification, amendment and supplement, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes. Except for Supplemental Indentures requiring the consent of Owners pursuant to clause (a) above, upon the District and the Trustee entering into any Supplemental Indenture pursuant to the Indenture, no Owner of any Bond has any right to object to the entry into such Supplemental Indenture by the District and the Trustee, or to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the entry into such Supplemental Indenture, or to enjoin or restrain the District or the Trustee from entering into the same or to enjoin or restrain the District or the Trustee from taking any action pursuant to the provisions thereof whether or not such Owner gave his consent to such Supplemental Indenture.

Disqualified Bonds. Bonds held for the account of the District will not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and are not entitled to consent to or take any other action provided in the Indenture (provided, however, that only Bonds that a Responsible Officer of the Trustee actually knows to be so held will be disregarded), unless all Bonds are so held, in which case no such Bonds will be disregarded and the Trustee may adopt appropriate regulations to require each Owner, before such Owner's consent provided for in the Indenture is deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in the Indenture.

Endorsement or Replacement of Bonds After Amendment or Supplement. After the effective date of any action to amend or supplement the Indenture, the Trustee may determine that the Bonds may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Bond and presentation of such Owner's Bond such notation will be made on such Bond. If the Trustee so determines, new Bonds so modified as in the opinion of the Trustee are necessary to conform to such action will be prepared, and in that case upon demand of the Owner of any Outstanding Bonds, such new Bonds will be exchanged without cost to each Owner for Bonds then Outstanding at the Corporate Trust Office of the Trustee upon surrender of such Outstanding Bonds. All Bonds surrendered to the Trustee pursuant to the provisions of the Indenture will be cancelled by the Trustee and will not be redelivered.

Signing by Trustee of Amendments and Supplements. The Trustee will sign any amendment or supplement to the Indenture or the Bonds authorized by the Indenture if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If any amendment or supplement to the Indenture or the Bonds authorized by the Indenture does adversely affect the rights, duties, liabilities or immunities of the Trustee, the Trustee may, but need not, sign it. In signing a Supplemental Indenture, the Trustee will be fully protected in relying on a Favorable Opinion of Bond Counsel, subject to the provisions of the Indenture.

DEFEASANCE

Discharge of Indenture. (a) If and when the Bonds secured by the Indenture become due and payable in accordance with their terms or through redemption proceedings as provided in the Indenture, or otherwise, and the whole amount of the principal or Redemption Price and the interest so due and payable upon all of the Bonds is paid, or provision has been made for the payment of the same in accordance with the Indenture, together with all other sums payable under the Indenture by the District, including all fees and expenses of the Trustee have been paid in full, then and in that case, the Indenture and the lien created thereby will be discharged and satisfied and the District will be released from the covenants, agreements and obligations of the District contained in the Indenture, and such lien and all covenants, agreements and other obligations of the District thereunder will cease, terminate, become void and be completely discharged. Upon the occurrence of such event, the Trustee will assign and transfer to or upon the order of the District all property (in excess of the amounts required for the foregoing) then held by the Trustee free and clear of any encumbrances and execute such documents as may be reasonably required by the District in this regard.

(b) When any of the Bonds have been paid or provision has been made for the payment of the same in accordance with the Indenture, then the Indenture and the lien created thereby will be discharged and satisfied in respect of such Bonds and the District will be released from the covenants, agreements and obligations of the District contained in the Indenture, and such lien and all covenants, agreements and other obligations of the District thereunder will cease, terminate, become void and be completely discharged in respect of such Bonds and such portion of the Master Note evidencing such Bonds.

(c) Notwithstanding the satisfaction and discharge of the Indenture, or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, compliance by the District of the covenants described above under the caption “COVENANTS—Power to Issue Bonds and Master Note and Make Pledge and Assignment” and the duties of the Trustee in connection with all of the foregoing, will remain in effect and be binding upon the District, the Trustee and the Owners and the Trustee will continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal, Purchase Price or Redemption Price of and interest on the Bonds and to pay to the Owners the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture, or the discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation and indemnification of the Trustee will remain in effect and will be binding upon the Trustee and the District.

Defeasance of Bonds. Any Bond or Bonds will, prior to the maturity date or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Indenture if: (a) in case said Bonds are to be redeemed on any date prior to their maturity, the District has given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Indenture, notice of redemption of such Bonds on the applicable Redemption Date; (b) there has been deposited with the Trustee either: (i) moneys in an amount which are sufficient; or (ii) Federal Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, will be sufficient (as verified by an Accountant’s Report), to pay when due the principal, or Redemption Price, as applicable, of, and interest due and to become due on, said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and, unless a Liquidity Facility remains in effect, the Purchase Price of any Bonds which may be tendered for purchase pursuant to the Indenture and, with respect to any period to the Redemption Date or maturity date thereof, as the case may be, as to which the interest rate on the Bonds has not been set by the applicable Remarketing Agent, the interest on the Bonds will be calculated at the Maximum Rate; and (c) in the event any of said Bonds are not to be paid at maturity or redeemed within the next succeeding 60 days after the deposit described in clause (b) has been made with the Trustee, the District has given the Trustee in form satisfactory to the Trustee irrevocable instructions to Mail or provide Electronic Notice, as soon as practicable in the same manner as a notice of redemption is provided pursuant to the Indenture, a notice to the Owners of such Bonds that the deposit required by clause (b) has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating such maturity or Redemption Dates upon which moneys are to be available for the payment of the principal or Redemption Price or Purchase Price, as applicable, of said Bonds. Neither the Federal Securities nor moneys deposited with the Trustee pursuant to the Indenture nor principal or interest payments on any such Federal Securities may be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal or Redemption Price (if applicable) of, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Federal Securities deposited with the Trustee, if not then needed for such purpose, will, to the extent practicable, and at the direction of the District, be reinvested in Federal Securities maturing at times and in amounts, together with the other moneys and payments with respect to Federal Securities then held by the Trustee pursuant to the Indenture, sufficient (as verified by an Accountant’s Report) to pay when due the principal or Redemption Price (if applicable) of, and interest to become due on said Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments will, upon receipt by the Trustee of a written direction of a District Representative, be paid over to the District, as received by the Trustee, free and clear of any trust, lien or pledge.

Any release under the Indenture is without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Indenture and all its reasonable expenses, charges and other

disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Indenture created and the performance of its powers and duties under the Indenture; provided, however, that the Trustee has no right, title or interest in, or lien on, any moneys or securities deposited to defease Bonds pursuant to the Indenture.

Moneys Held for Particular Bonds. Except as otherwise provided in the Indenture, the amounts held by the Trustee for the payment of the interest, principal, Purchase Price or Redemption Price due on any date with respect to particular Bonds will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners entitled thereto.

Unclaimed Money. Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest, principal, Purchase Price or Redemption Price of any Bonds which remains unclaimed for two years after the date when such payments have become payable, if such money was held by the Trustee on such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such payments have become payable, will upon written notice from the District be repaid by the Trustee (without liability for interest) to the District as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the District for the payment of the interest on, and principal, Purchase Price or Redemption Price of, such Bonds; provided that before being required to make any such payment to the District, the Trustee will, at the expense of the District, give notice by Mail or Electronic Notice to the Owners of such Bonds that such money remains unclaimed and that after a date named in such notice, which date will not be less than 60 days after the date of giving such notice, the Trustee will promptly pay such unclaimed money to the District.

MISCELLANEOUS

Benefits of the Indenture Limited. Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the Liquidity Provider, the District, the Trustee, the Remarketing Agent and the Owners any claim, remedy or right under or pursuant thereto, and any agreement, condition, covenant or term contained therein required to be observed or performed by or on behalf of the District will be for the sole and exclusive benefit of the Liquidity Provider, the Trustee, the Remarketing Agent and the Owners. The Trustee and the District have acknowledged that so long as the Liquidity Facility is in effect or any amount remains payable under the Reimbursement Agreement, the Liquidity Provider will be a third party beneficiary of the Indenture, with the power to enforce the same.

Successor Deemed Included in All References to Predecessor. Whenever either the Liquidity Provider, the District, the Trustee, the Remarketing Agent or any officer thereof is named or referred to in the Indenture, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the Liquidity Provider, the District, the Trustee, the Remarketing Agent or such officer, and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Liquidity Provider, the District, the Trustee, the Remarketing Agent or the Trustee or any officer thereof will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such Owner's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which such notary public or other officer purports to act that the person signing such declaration, request or other instrument or writing acknowledged to such notary public or other officer the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

Any declaration, request or other instrument in writing of the Owner of any Bond will bind all future Owners of such Bond with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. No supervisor, officer or employee of the District is individually or personally liable for the payment of the principal, Purchase Price, Redemption Price of, or interest on, the Bonds, but nothing contained in the Indenture relieves any supervisor, officer or employee of the District from the performance of any official duty provided by any applicable provision of law or thereby.

Notice by Mail. Any notice required to be given under the Indenture by Mail to Owners will be given by Mailing a copy of such notice to such Owners at their addresses appearing in the Bond Register.

Funds. Any Fund required to be established and maintained in the Indenture by the Trustee may be established and maintained in the account records of the Trustee either as an account or a fund, and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such Funds will at all times be maintained in accordance with sound industry practice and with due regard for the protection of the security of the Bonds and the rights of the Owners.

Partial Invalidity. If any one or more of the conditions, covenants or terms contained in the Indenture or required therein to be observed or performed by or on the part of the District, the Trustee, the Remarketing Agent, the Liquidity Provider or the Trustee are contrary to law, then such condition or conditions, such covenant or covenants, or such term or terms will be null and void and will be deemed separable from the remaining conditions, covenants and terms of the Indenture and will in no way affect the validity thereof or of the Bonds, and the Owners will retain all the benefit, protection and security afforded to them under the Indenture and all provisions of applicable law. The parties to the Indenture have declared that they would have executed and delivered the Indenture and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof and would have authorized the issuance and delivery of the Bonds pursuant thereto irrespective of the fact that any one or more of the articles, sections, paragraphs, subdivisions, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

California Law. The Indenture will be construed and governed in accordance with the laws of the State.

Paired Obligation Provider Guidelines. For purposes of the additional debt test and the rate covenant described in the Official Statement under the captions “SECURITY FOR THE 2021B BONDS—Additional Obligations” and “SECURITY FOR THE 2021B BONDS—Rate Covenant,” respectively, Paired Obligations must comply with the following conditions:

(a) A Paired Obligation Provider must initially have a long-term rating of any two of the following: (i) A- or better by S&P; (ii) A- or better by Fitch; and (iii) A3 or better by Moody’s.

(b) So long as the long-term rating of the Paired Obligation Provider is not reduced below: (i) BBB by S&P; (ii) BBB by Fitch; or (iii) Baa2 by Moody’s, the interest rate of such Paired Obligation will be deemed to be equal to the effective interest rate payable by the District with respect to such Paired Obligation for purposes of the additional debt test and the rate covenant described in the Official Statement under the captions “SECURITY FOR THE 2021B BONDS—Additional Obligations” and “SECURITY FOR THE 2021B BONDS—Rate Covenant,” respectively.

In the event that a Paired Obligation Provider does not maintain the Minimum Rating Requirement and the District does not replace such Paired Obligation Provider with another Paired Obligation Provider which maintains the Initial Rating Requirement within 30 Business Days of notice that the Paired Obligation Provider has not maintained the Minimum Rating Requirement, interest with respect to such Paired Obligations will be computed for purposes of the additional debt test and the rate covenant described in the Official Statement under the captions “SECURITY FOR THE 2021B BONDS—Additional Obligations” and “SECURITY FOR THE 2021B BONDS—Rate Covenant,” respectively, without regard to payments to be received from the Paired Obligation Provider.

Payment Due on Non-Business Days. If a payment date is not a Business Day, then payment may be made on the next Business Day, and interest will not accrue for the intervening period.

Notices to Rating Agencies. The Trustee will give immediate notice to each Rating Agency in the event that: (a) The Trustee, Paying Agent or Remarketing Agent resigns or is replaced; (b) The Indenture is amended or supplemented or, to the actual knowledge of the Trustee, a Reimbursement Agreement is entered into or amended; (c) To the actual knowledge of the Trustee, a Liquidity Facility is entered into, renewed, extended, expires or is terminated; (d) The Bonds are converted from one Mode to another Mode or when the Bonds are in the Term Rate Mode, an Adjustment Period longer than three years is established; (e) The substitution of a new Liquidity Facility for any then-current Liquidity Facility has occurred; (f) There has been a redemption (other than a mandatory sinking fund redemption) or defeasance of the Bonds; and (g) A written notice is received by the Trustee from a Liquidity Provider terminating a Liquidity Facility. Notices to S&P will be delivered via electronic mail to the following address: pubfin_structured@spglobal.com, and by such other means as requested by S&P.

APPENDIX D

FORM OF BOND COUNSEL OPINION

Upon the issuance of the 2021B Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the form that is set forth below.

June 10, 2021

Eastern Municipal Water District
2270 Trumble Road
Perris, California 92572-8300

Re: \$48,040,000 Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2021B

Members of the Board of Directors:

We have examined a certified copy of the record of the proceedings of the Eastern Municipal Water District (the “District”) relative to the issuance of the \$48,040,000 Refunding Water and Wastewater Revenue Bonds, Series 2021B, dated the date hereof (the “2021B Bonds”), and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchaser of the 2021B Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2021B Bonds are being issued pursuant to an Indenture of Trust, dated as of June 1, 2021 (the “Indenture”), by and between the District and U.S. Bank National Association, as trustee (the “Trustee”). The 2021B Bonds mature on the date and in the amount referenced in the Indenture. The 2021B Bonds are dated their date of delivery and bear interest payable on the dates and at the rates per annum referenced in the Indenture. The 2021B Bonds are registered in the form set forth in the Indenture.

Based on our examination as Bond Counsel of existing law, certified copies of such legal proceedings and such other proofs as we deem necessary to render this opinion, we are of the opinion, as of the date hereof and under existing law, that:

1. The proceedings of the District show lawful authority for the issuance and sale of the 2021B Bonds under the laws of the State of California now in force, and the Indenture has been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the 2021B Bonds and the Indenture are valid and binding obligations of the District enforceable against the District in accordance with their terms.

2. The Indenture creates a valid pledge of that which it purports to create, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein. The obligation of the District to make the payments of principal of and interest on the 2021B Bonds from Net Revenues (as defined in the Indenture) is an enforceable obligation of the District and does not constitute an indebtedness of the District in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2021B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

4. Interest on the 2021B Bonds is exempt from State of California personal income tax.

The opinions that are expressed herein as to the exclusion from gross income of interest on the 2021B Bonds are based upon certain representations of fact and certifications made by the District and are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the 2021B Bonds to assure that such interest on the 2021B Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the 2021B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2021B Bonds. The District has covenanted to comply with all such requirements.

The opinions that are expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the 2021B Bonds terminates on the date of their issuance. The Indenture and the Tax Certificate relating to the 2021B Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the 2021B Bonds for federal income tax purposes with respect to any 2021B Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2021B Bonds.

The opinions that are expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the 2021B Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the 2021B Bonds or other offering material relating to the 2021B Bonds and expressly disclaim any duty to advise the owners of the 2021B Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2021B Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2021B Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2021B Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2021B Bonds. The 2021B 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 the 2021B Bonds, each in the aggregate principal amount of the 2021B Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated "AA+" by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2021B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2021B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2021B 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 2021B 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 bonds representing their ownership interests in 2021B Bonds, except in the event that use of the book-entry system for the 2021B Bonds is discontinued.

To facilitate subsequent transfers, all 2021B 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 2021B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2021B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2021B 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 holding on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2021B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2021B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2021B Bond documents. For example, Beneficial Owners of 2021B Bonds may wish to ascertain that the nominee holding the 2021B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2021B Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2021B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2021B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments with respect to the 2021B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2021B Bonds purchased or tendered, through its participant, to the Tender Agent, and shall effect delivery of such securities by causing the Direct Participant to transfer the Participant's interest in the 2021B Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of 2021B Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2021B Bonds are transferred by Direct Participants or DTC's records and followed by book-entry credit of tendered 2021B Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2021B Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2021B Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2021B Bonds will be printed and delivered.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon the issuance of the 2021B Bonds, the District proposes to enter into a Continuing Disclosure Certificate in substantially the form that is set forth below.

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Eastern Municipal Water District (the “District”) in connection with the issuance of its \$48,040,000 Refunding Water and Wastewater Revenue Bonds, Series 2021B (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of June 1, 2021 (the “Indenture”), by and between U.S. Bank National Association, as trustee, and the District. The District covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report. The term “Annual Report” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term “Beneficial Owner” means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term “EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

Financial Obligation. The term “Financial Obligation” means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of (A) or (B). The term “Financial Obligation” does not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

Fiscal Year. The term “Fiscal Year” means the one-year period ending on the last day of June of each year.

Holder. The term “Holder” means a registered owner of the Bonds.

Listed Events. The term “Listed Events” means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term “Official Statement” means the Official Statement dated June 2, 2021 relating to the Bonds.

Participating Underwriter. The term “Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Rule. The term “Rule” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The District shall provide not later than each February 1 following the end of its Fiscal Year (commencing with Fiscal Year 2021) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which 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.

(b) If the District is unable to provide to EMMA an Annual Report by the date required in subsection (a), the District shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Comprehensive Annual Financial Report of the District for the prior Fiscal Year, which shall include audited financial statements of the District for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If audited annual financial statements are not available by the time specified in Section 3(a) above, unaudited financial statements will be provided as part of the Disclosure Report and audited financial statements will be provided when and if available; and

(b) To the extent not contained in the Comprehensive Annual Financial Report, updated versions of financial information and operating data relating to the District of the type contained in the Official Statement, under the following captions; provided, that such information shall be updated only for complete Fiscal Years, not for portions of Fiscal Years:

(i) Appendix A under the caption “THE DISTRICT—Debt Structure of the District—Table 3;”

(ii) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—District Water Facilities—Table 5;”

(iii) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Production—Tables 6, 7 and 8;”

(iv) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Sales and Deliveries—Table 9;”

(v) Appendix A under the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Wastewater Facilities—Table 10;”

(vi) Appendix A under the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues;”

(vii) Appendix A under the caption “HISTORICAL FINANCIAL OPERATIONS—Non-Operating Revenues;” and

(viii) Appendix A under the caption “HISTORICAL OPERATING RESULTS—Table 18.”

Any or all of the items listed above may be included by specific reference to other documents, including Official Statements of debt issues of the District or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final Official Statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the District shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not 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. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes;
9. bankruptcy, insolvency, receivership or similar proceedings; 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; and
10. default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
2. modifications to the rights of Bond Holders;

3. optional, unscheduled or contingent Bond redemptions;
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 the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
7. appointment of a successor or additional trustee or the change of the name of a trustee; and
8. incurrence of a Financial Obligation of the District or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders.

(c) If the District determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the District shall provide to any person financial information and operating data regarding the District which is customarily prepared by the District and is publicly available.

7. Termination of Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holders or Beneficial Owners of at least 50% in aggregate principal amount of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District 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 District to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: June 10, 2021

EASTERN MUNICIPAL WATER DISTRICT

By: _____
Its: General Manager

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