

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 (and original issue discount) on the 2016B 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 and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2016B Bonds is exempt from State of California personal income tax. See the caption “TAX EXEMPTION” with respect to tax consequences relating to the 2016B Bonds.

STATE OF CALIFORNIA

COUNTY OF RIVERSIDE

\$124,925,000

**EASTERN MUNICIPAL WATER DISTRICT FINANCING AUTHORITY
WATER AND WASTEWATER REVENUE BONDS, SERIES 2016B**

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

The 2016B Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in denominations of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of the 2016B Bonds will not receive certificates representing their beneficial ownership in the 2016B Bonds but will receive credit balances on the books of their respective nominees. Interest on the 2016B Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2017. Payment of the principal of and interest on the 2016B Bonds is to be made to Cede & Co., which is to disburse said payments to the Beneficial Owners of the 2016B Bonds through their nominees.

The 2016B Bonds are subject to optional redemption as more fully described herein.

The 2016B Bonds are being issued to provide funds: (i) to prepay the District’s Water and Sewer Revenue Fixed Rate Certificates of Participation, Series 2008H; and (ii) to pay costs incurred in connection with the issuance of the 2016B Bonds.

The 2016B Bonds are being delivered pursuant to the Indenture of Trust, dated as of September 1, 2016, by and between the Eastern Municipal Water District Financing Authority and U.S. Bank National Association, as Trustee. THE 2016B BONDS ARE A SPECIAL LIMITED OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM AUTHORITY REVENUES, WHICH CONSIST OF INSTALLMENT PAYMENTS TO BE MADE BY THE DISTRICT TO THE AUTHORITY PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT, DATED AS OF SEPTEMBER 1, 2016, BY AND BETWEEN THE DISTRICT AND THE AUTHORITY, AND FROM CERTAIN OTHER FUNDS AND ACCOUNTS HELD BY THE TRUSTEE PURSUANT TO THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE AUTHORITY ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE 2016B BONDS. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE 2016B BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the District to pay the Installment Payments is: (i) subordinate to the obligation of the District to make payments on certain obligations of the District currently outstanding in the aggregate principal amount of \$198,405,000; and (ii) 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 \$577,108,862 and the obligation of the District to make regularly scheduled payments on two interest rate swap agreements. The District may incur additional obligations payable on a senior basis to the Installment Payments, subject to the terms and conditions of the Master Resolution, as more fully described herein. The District may also incur additional obligations payable from Net Revenues on a parity with the Installment Payments, subject to the terms and conditions of the Installment Purchase Agreement, as more fully described herein.

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

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

MATURITY SCHEDULE

(See inside front cover)

The 2016B Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of the valid, legal and binding nature of the 2016B 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 and the Authority by Lemieux & O’Neill, Westlake Village, California, for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California, and for the Trustee by its counsel. It is anticipated that the 2016B Bonds will be available for delivery through the facilities of The Depository Trust Company on or about September 14, 2016.

**BofA Merrill Lynch
Stifel**

**Citigroup
Morgan Stanley**

\$124,925,000
EASTERN MUNICIPAL WATER DISTRICT FINANCING AUTHORITY
WATER AND WASTEWATER REVENUE BONDS, SERIES 2016B

MATURITY SCHEDULE
BASE CUSIP^{®†} 27677S

<i>Maturity Date</i> <i>(July 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP^{®†}</i>
2017	\$1,300,000	2.000%	0.440%	101.239	AD5
2018	1,350,000	5.000	0.470	108.096	AE3
2019	1,420,000	5.000	0.560	112.304	AF0
2020	1,490,000	5.000	0.620	116.411	AG8
2024	2,615,000	5.000	1.170	128.460	AH6
2025	2,755,000	4.000	1.300	122.374	AJ2
2026	2,900,000	4.000	1.410	123.620	AK9
2027	3,065,000	5.000	1.530	131.457 ^C	AL7
2028	4,305,000	5.000	1.680	129.873 ^C	AM5
2029	5,625,000	5.000	1.770	128.933 ^C	AN3
2030	5,935,000	5.000	1.840	128.208 ^C	AP8
2031	14,590,000	5.000	1.890	127.692 ^C	AQ6
2032	15,375,000	5.000	1.940	127.180 ^C	AR4
2033	18,195,000	5.000	1.990	126.670 ^C	AS2
2034	21,545,000	4.000	2.280	115.022 ^C	AT0
2035	22,460,000	4.000	2.330	114.550 ^C	AU7

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^C Priced to first optional redemption date of July 1, 2026 at par.

EASTERN MUNICIPAL WATER DISTRICT FINANCING AUTHORITY

2270 Trumble Road
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Perris, California 92572-8300

BOARD OF DIRECTORS OF THE AUTHORITY AND DISTRICT

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Charles Turner, Director of Finance
Sheila Zelaya, Board Secretary

DISTRICT GENERAL COUNSEL

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Westlake Village, California

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Newport Beach, California

FINANCIAL ADVISOR

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Los Angeles, California

TRUSTEE

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

The Arbitrage Group, Inc.
Brenham, Texas

No dealer, broker, salesperson or other person has been authorized by the District or the Authority to give any information or to make any representations in connection with the offer or sale of the 2016B Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2016B 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 2016B Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

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

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Authority or any other parties described herein since the date hereof. These securities may not be sold, nor may an offer to buy these securities be accepted prior to the time that the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the 2016B Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained 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 DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

IN CONNECTION WITH THE OFFERING OF THE 2016B BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2016B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE 2016B BONDS TO CERTAIN DEALERS, DEALER BANKS, BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE 2016B BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The District maintains an Internet website; however, information presented on such website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2016B Bonds.

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SUMMARY STATEMENT

This summary is subject in all respects to the more complete information contained in this Official Statement, and the offering of the 2016B Bonds to potential investors is made only by means of the entire Official Statement.

Purpose. The 2016B Bonds are being issued to provide funds: (i) to prepay the District's Water and Sewer Revenue Fixed Rate Certificates of Participation, Series 2008H, as described under the caption "THE REFUNDING PLAN;" and (ii) to pay costs incurred in connection with the issuance of the 2016B Bonds. See the caption "ESTIMATED SOURCES AND USES OF FUNDS."

Security for the 2016B Bonds. The 2016B Bonds are a special limited obligation of the Authority payable solely from Authority Revenues, which consist of Installment Payments to be made by the District to the Authority pursuant to the Installment Purchase Agreement, and from amounts on deposit in certain funds and accounts established by the Indenture. Neither the full faith and credit nor any other revenues or funds of the Authority are pledged to or available for the payment of debt service on the 2016B Bonds. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE 2016B BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the District to make Installment Payments is a special limited obligation of the District payable solely from Net Revenues of the District's Water and Sewer System, consisting of Water and Sewer Revenues remaining after paying Maintenance and Operation Costs and Parity Obligations that are currently outstanding in the aggregate principal amount of \$198,405,000.

The obligation of the District to make Installment Payments is on a parity with the obligation of the District to make payments on approximately \$577,108,862 aggregate principal amount of Bonds and Contracts and the obligation of the District to make regularly scheduled payments on two interest rate swap agreements. See Appendix A under the caption "THE DISTRICT—Debt Structure of the District."

The obligation of the District to make the Installment Payments under the Installment Purchase Agreement is absolute and unconditional, and until such time as all payments required thereunder have been paid in full (or provision for the payment thereof has been made as provided for in the Installment Purchase Agreement), the District will not discontinue or suspend any Installment Payments that are required to be made by it under the Installment Purchase Agreement when due, whether or not the Water and Sewer System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and whether or not the 2016B Project has been completed, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

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

Rate Covenant. 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 equal to 115% of the Debt Service 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. See the caption “SECURITY FOR THE 2016B BONDS—Rate Covenant.”

Additional Indebtedness. The District may make additional pledges of, and place additional liens, on the Water and Sewer Revenues that are senior to the pledge and lien securing the payment of the Installment Payments in accordance with the Master Resolution. The District may incur Bonds or Contracts payable on a parity with the Installment Payments provided that certain conditions are satisfied as described herein. Nothing in the Master Resolution or the Installment Purchase Agreement precludes the District from entering into obligations which are Maintenance and Operation Costs and, therefore, payable from Water and Sewer Revenues prior to the Installment Payments, or from issuing any bonds or executing contracts the payments under which are payable from Net Revenues subordinate to Bonds or Contracts of the District. See the caption “SECURITY FOR THE 2016B BONDS—Additional Obligations.”

Redemption. The 2016B Bonds are subject to optional redemption. See the caption “THE 2016B BONDS—Redemption.”

Information Regarding 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, 2015.

\$124,925,000
EASTERN MUNICIPAL WATER DISTRICT FINANCING AUTHORITY
WATER AND WASTEWATER REVENUE BONDS, SERIES 2016B

INTRODUCTION

This Official Statement, including the cover page and all appendices, provides certain information concerning the sale and delivery of the Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2016B (the “**2016B Bonds**”). Descriptions and summaries of various documents that are set forth in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms that are used and not otherwise defined in this Official Statement have the meanings ascribed thereto in Appendix C.

The 2016B Bonds are being issued to provide funds: (i) to prepay the District’s Water and Sewer Revenue Fixed Rate Certificates of Participation, Series 2008H (the “**2008H Certificates**”), as described under the caption “THE REFUNDING PLAN;” and (ii) to pay costs incurred in connection with the issuance of the 2016B Bonds.

The 2016B Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2016 (the “**Indenture**”), by and between the Eastern Municipal Water District Financing Authority (the “**Authority**”) and U.S. Bank National Association, Los Angeles, California, as trustee (the “**Trustee**”). The 2016B Bonds are limited obligations of the Authority payable solely from Authority Revenues, which consist of payments (the “**Installment Payments**”) to be made by the Eastern Municipal Water District (the “**District**”) to the Authority pursuant to an Installment Purchase Agreement, dated as of September 1, 2016 (the “**Installment Purchase Agreement**”), by and between the District and the Authority, and from amounts on deposit in certain funds and accounts established by the Indenture.

The obligation of the District to make Installment Payments is a special limited obligation of the District payable solely from Net Revenues of the District’s Water and Sewer System, consisting of Water and Sewer Revenues remaining after paying Maintenance and Operation Costs and Parity Obligations that are currently outstanding in the aggregate principal amount of \$198,405,000. See the caption “SECURITY FOR THE 2016B BONDS.”

The obligation of the District to make Installment Payments is payable from Net Revenues on a parity with the obligation of the District make payments on certain obligations of the District currently outstanding in the aggregate principal amount of \$577,108,862. See Appendix A under the caption “THE DISTRICT—Debt Structure of the District.”

The District may incur additional Parity Obligations, which are payable on a senior basis to the Installment Payments, subject to the terms and conditions of the Master Resolution, as more fully described under the caption “SECURITY FOR THE 2016B BONDS—Additional Obligations—Issuance of Additional Parity Obligations under Master Resolution.” The District may also incur additional obligations payable from Net Revenues on a parity with the Installment Payments, subject to the terms and conditions of the Indenture, as more fully described under the caption “SECURITY FOR THE 2016B BONDS—Additional Obligations—Issuance of Additional Subordinate Obligations under Installment Purchase Agreement.”

The summaries and references to the Master Resolution, the Indenture, the Installment Purchase Agreement, the Continuing Disclosure Certificate executed by the District as of the date of issuance of the 2016B Bonds (the “**Continuing Disclosure Certificate**”) and all other documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by 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, the Installment Purchase Agreement or the Indenture and, as used herein, has the meaning given to it in the Master Resolution, the Installment Purchase Agreement or the Indenture, as applicable. See Appendix C for summaries of certain provisions of the Master Resolution, the Installment Purchase Agreement 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 2016B 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 Director of Finance, 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

General

The 2008H Certificates, which are currently outstanding in the aggregate principal amount of \$140,035,000, were executed and delivered pursuant to a 2008H Trust Agreement, dated as of August 1, 2008 (the "**2008H Trust Agreement**"), by and among the District, the Eastern Municipal Water District Facilities Corporation (the "**Corporation**") and U.S. Bank National Association, as successor trustee (the "**2008H Trustee**"). The 2008H Certificates are payable from installment payments made by the District under the 2008H Installment Sale Agreement, dated as of August 1, 2008 (the "**2008H Installment Sale Agreement**"), by and between the District and the Corporation. The District plans to apply a portion of the proceeds of the 2016B Bonds: (i) to pay all principal and interest with respect to the 2008H Certificates when due through July 1, 2018; and (ii) on July 1, 2018 (the "**Prepayment Date**"), to optionally prepay all of the 2008H Certificates maturing after the Prepayment Date at a prepayment price equal to 100% of the outstanding aggregate principal amount with respect thereto, together with interest accrued with respect thereto through the Prepayment Date (the "**Prepayment Price**"), as required under the 2008H Trust Agreement.

Under an Escrow Agreement (2008H Certificates), dated as of September 1, 2016 (the "**2008H Escrow Agreement**"), by and between the District and the 2008H Trustee, as escrow agent, the District will deliver a portion of the proceeds of the 2016B Bonds to the 2008H Trustee for deposit in the escrow fund established under the 2008H Escrow Agreement (the "**2008H Escrow Fund**"). The 2008H Trustee will invest a portion of the amounts so deposited in the 2008H Escrow Fund in Federal Securities (as described in the 2008H Escrow Agreement). From the maturing principal of the Federal Securities and related investment income and any uninvested moneys on deposit in the 2008H Escrow Fund, the 2008H Trustee will: (i) pay all principal and interest with respect to the 2008H Certificates when due through July 1, 2018; and (ii) prepay on

the Prepayment Date all of the 2008H Certificates maturing after the Prepayment Date at the Prepayment Price.

Sufficiency of the deposits in the 2008H Escrow Fund for such purposes will be verified by The Arbitrage Group, Inc., Brenham, Texas (the “**Verification Agent**”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2008H Escrow Agreement, the 2008H Certificates will be defeased pursuant to the provisions of the 2008H Installment Sale Agreement and the 2008H Trust Agreement as of the date of issuance of the 2016B Bonds.

The amounts held by the 2008H Trustee in the 2008H Escrow Fund are pledged solely to the payment of the 2008H Certificates and will not be available for the payments on the 2016B Bonds.

Verification of Mathematical Computations

Upon the issuance of the 2016B Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriters relating to: (a) the adequacy of the moneys deposited in the 2008H Escrow Fund: (i) to pay all principal and interest with respect to the 2008H Certificates when due through July 1, 2018; and (ii) to prepay on the Prepayment Date all of the 2008H Certificates maturing after the Prepayment Date at the Prepayment Price; and (b) the computations of yield of the 2016B Bonds which support Bond Counsel’s opinion that the interest on the 2016B Bonds is excluded from gross income for federal income tax purposes.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources⁽¹⁾:	
Principal Amount of Bonds	\$ 124,925,000
Plus Original Issue Premium	27,718,286
District Contribution ⁽²⁾	<u>14,350,219</u>
Total Sources:	\$ 166,993,506
Uses⁽¹⁾:	
Transfer to 2008H Escrow Fund	\$ 152,061,470
Transfer to District ⁽³⁾	14,350,219
Costs of Issuance ⁽⁴⁾	<u>581,816</u>
Total Uses:	\$ 166,993,506

- (1) Amounts rounded to the nearest dollar. Totals may not add.
- (2) Reflects moneys held in funds and accounts established in connection with the 2008H Certificates.
- (3) Reflects moneys transferred to District from funds and accounts established in connection with the 2008H Certificates to finance capital projects of the District.
- (4) Includes certain legal, financing, rating agency and Trustee fees, Underwriters’ discount and printing costs.

THE 2016B BONDS

General Provisions

The 2016B Bonds will be issued in the aggregate principal amount of \$124,925,000. The 2016B Bonds will bear interest from and be dated the date of their initial issuance, and will be payable upon maturity on the dates set forth on the inside front cover page hereof. Interest on the 2016B Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2017. Interest will be calculated at the rates set

forth on the inside front cover page hereof and on the basis of a year of 360 days comprised of twelve 30 day months.

The 2016B Bonds will be delivered only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”). DTC will act as securities depository for the 2016B Bonds. Ownership interests in the 2016B Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See the caption “—Book-Entry Only System” below and Appendix E.

In the event that the book-entry only system that is described below is discontinued, the principal of and interest on any 2016B Bond will be payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the Office of the Trustee in Los Angeles, California. Such principal and interest will be payable in lawful money of the United States of America.

Book-Entry Only System

One fully-registered 2016B Bond will be issued for each maturity of the 2016B Bonds in the principal amount of the 2016B Bonds of such maturity. It will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the 2016B Bonds is registered in the name of Cede & Co., the term “Owner” as used in this Official Statement will refer to Cede & Co. and not to the actual purchasers of the 2016B Bonds (the “**Beneficial Owners**”).

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2016B Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The Authority cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the 2016B 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.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system that is described above is discontinued, the 2016B Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2016B Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2016B Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee is not required to register the transfer of any 2016B Bond during the period in which the Trustee is selecting 2016B Bonds for redemption or any 2016B Bond that has been selected for redemption.

Whenever any 2016B Bond is surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new 2016B Bond or 2016B Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee will require the 2016B Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2016B Bonds, the Trustee will cancel and destroy the 2016B Bonds it has received.

2016B Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee is not required to exchange any

2016B Bond during the period in which the Trustee is selecting 2016B Bonds for redemption and any 2016B Bond that has been selected for redemption. The Trustee will require the 2016B Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2016B Bonds, the Trustee will cancel and destroy the 2016B Bonds it has received.

Redemption

Optional Redemption. The 2016B Bonds maturing on or after July 1, 2027 will be subject to redemption prior to their respective stated maturities, as a whole or in part on July 1, 2026 or any date thereafter as directed by the Authority and by lot within each maturity in integral multiples of \$5,000, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Partial Redemption of 2016B Bonds. Upon surrender of any 2016B Bond redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2016B Bond or 2016B Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2016B Bonds surrendered and of the same series, interest rate and maturity.

Selection of 2016B Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the 2016B Bonds, the Trustee will select the 2016B Bonds for redemption as a whole or in part on any date as directed by the Authority and by lot within each maturity in integral multiples of \$5,000 in accordance with the provisions set forth above under the caption “—Redemption.” The Trustee will promptly notify the Authority in writing of the numbers of the 2016B Bonds or portions thereof so selected for redemption.

Notice of Redemption

Notice of redemption will be mailed by first class mail not less than 30 days before any Redemption Date, to the respective Owners of any 2016B Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and to the Information Services. Each notice of redemption will state the date of notice, the redemption date, the place or places of redemption, the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, if less than all 2016B Bonds of any such maturity are to be redeemed, the serial numbers of the 2016B Bonds of such maturity to be redeemed by giving the individual number of each 2016B Bond or by stating that all 2016B Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2016B Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the redemption date there will become due and payable on each of said 2016B Bonds or parts thereof designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2016B Bond to be redeemed in part only, together with, interest accrued thereon to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest thereon ceases to accrue, and will require that such 2016B Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2016B Bond. Notice of redemption of 2016B Bonds will be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

With respect to any notice of optional redemption of 2016B Bonds, such notice will state that such redemption will be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2016B 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 Trustee will not be required to redeem such 2016B Bonds. In the event that such notice of redemption

contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Effect of Redemption

Notice of redemption having been duly given as described above under the caption “—Notice of Redemption,” and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the 2016B Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the 2016B Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2016B Bonds so called for redemption will cease to accrue, said 2016B Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2016B Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Trustee will, upon surrender for payment of any of the 2016B Bonds to be redeemed on their Redemption Dates, pay such 2016B Bonds at the Redemption Price.

All 2016B Bonds redeemed pursuant to the provisions of the Indenture will be canceled upon surrender thereof.

SECURITY FOR THE 2016B BONDS

General

Each 2016B Bond is a special limited obligation of the Authority payable solely from Authority Revenues, which consist of Installment Payments to be made by the District under the Installment Purchase Agreement, and from certain other funds and accounts established pursuant to the Indenture. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE AUTHORITY ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE 2016B BONDS. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE 2016B BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The Authority has assigned substantially all of its right, title and interest in the Installment Purchase Agreement to the Trustee pursuant to the Indenture, for the benefit of the Owners of the 2016B Bonds, including its right to receive Installment Payments and its rights as may be necessary to enforce payment of the Installment Payments when due.

Installment Payments Payable From Net Revenues

All of the Authority Revenues and any other amounts (including proceeds of the sale of the 2016B Bonds) that are 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 2016B Bonds in accordance with their terms and the provisions of the Indenture, subject only to the provisions of the Indenture permitting the terms and conditions set forth therein. Such pledge constitutes a lien on and security interest in such amounts 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 Authority, irrespective of whether such parties have notice hereof.

Authority Revenues consist primarily of Installment Payments received from the District under the Installment Purchase Agreement. Pursuant to the Installment Purchase Agreement, the Installment Payments

are payable by the District 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 Appendix A under the caption “THE DISTRICT—Debt Structure of the District—Parity Obligations” for a description of Parity Obligations that are payable on a senior basis to the Installment Payments.

All Net Revenues and all amounts on deposit in the Subordinate Obligation Payment Fund have been irrevocably pledged to the payment of the Installment Payments as provided in the Installment Purchase Agreement. The Net Revenues may not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement. Such pledge, together with the pledge created by all other Contracts and Bonds (as described in the following paragraph), constitutes a lien on Net Revenues, subject to the application of Net Revenues and all amounts on deposit in the Subordinate Obligation Payment Fund as permitted in the Installment Purchase Agreement and other funds and accounts created thereunder for the payment of the Installment Payments and all other Contracts and Bonds in accordance with the terms thereof and of the Indenture.

The Installment Payments are payable from Net Revenues on a parity with the Subordinate Obligations, which consist of certain Contracts and Bonds (as such terms are defined in Appendix C under the caption “INSTALLMENT PURCHASE AGREEMENT—DEFINITIONS”), and certain regularly scheduled payments under two interest rate swap agreements. See Appendix A under the captions “THE DISTRICT—Debt Structure of the District—Subordinate Obligations,” “THE DISTRICT—Debt Structure of the District—Subordinate State Loans” and “THE DISTRICT—Debt Structure of the District—Interest Rate Swap Agreements” for a detailed description of Contracts and Bonds.

THE OBLIGATION OF THE DISTRICT TO MAKE THE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT THAT IS PAYABLE SOLELY FROM THE NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NOTWITHSTANDING ANYTHING CONTAINED IN THE INSTALLMENT PURCHASE AGREEMENT, THE DISTRICT IS NOT REQUIRED TO ADVANCE ANY MONEYS DERIVED FROM ANY SOURCE OF INCOME OTHER THAN THE NET REVENUES AND THE SUBORDINATE OBLIGATION PAYMENT FUND FOR THE PAYMENT OF AMOUNTS DUE THEREUNDER OR FOR THE PERFORMANCE OF ANY AGREEMENTS OR COVENANTS REQUIRED TO BE PERFORMED BY IT CONTAINED THEREIN. THE DISTRICT MAY, HOWEVER, ADVANCE MONEYS FOR ANY SUCH PURPOSE SO LONG AS SUCH MONEYS ARE DERIVED FROM A SOURCE LEGALLY AVAILABLE FOR SUCH PURPOSE AND MAY BE LEGALLY USED BY THE DISTRICT FOR SUCH PURPOSE.

Flow of Funds

Master Resolution. 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 Installment Payments) and the Installment Payments and other Subordinate Obligations, 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 Installment Payments 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:

(a) 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.

(b) 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: (i) 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); (ii) 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 (iii) Reimbursement Payments then due and payable.

(c) 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.

(d) 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.

(e) 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 Installment Payments that secure the 2016B Bonds are paid) a sum equal to the amount required to be deposited under the Indenture, the indentures and Contracts pursuant to which the Subordinate Obligations were issued or delivered, as applicable, the interest rate swap agreements described in Appendix A under the caption "THE

DISTRICT—Debt Structure of the District—Interest Rate Swap Agreements” and each other instrument securing Subordinate Obligations issued on a parity with the Installment Payments in the future, if any. See the caption “—Installment Purchase Agreement.”

(f) 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 issuance of the 2016B Bonds. See the caption “—No Reserve Fund.”

(g) 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.

Installment Purchase Agreement. In order to carry out and effectuate the pledge and lien of Net Revenues contained in the Installment Purchase Agreement, the District has agreed and covenanted that all Net Revenues will be received by the District in trust thereunder 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 any Contracts or Bonds remain unpaid. Moneys in the Subordinate Obligation Payment Fund will be used and applied by the District as provided in the Master Resolution and the Installment Purchase Agreement.

All moneys in the Subordinate Obligation Payment Fund will be applied by the District at the following times for transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes set forth in the Installment Purchase Agreement.

(a) Installment Payments. Not later than each Installment Payment Date, the District will, from the moneys in the Subordinate Obligation Payment Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The District will also, from the moneys in the Subordinate Obligation Payment Fund, transfer to the applicable trustee or payee for deposit in the respective payment fund, 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 Bond or Contract.

(b) Reserve Funds. On or before each Installment 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 Trustee for deposit to the applicable trustee for such reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore the reserve funds to an amount equal to the reserve fund requirement (if any) for such Bonds or Contracts. No debt service reserve fund has been established in connection with the issuance of the 2016B Bonds. See the caption “—No Reserve Fund.”

(c) Surplus. Moneys on deposit in the Subordinate Obligation Payment Fund on each Installment Payment Date that are not necessary to make any of the payments required above may be expended by the District at any time for any purpose permitted by law.

Indenture. There has been established with the Trustee the Revenue 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 Installment Payments remain unpaid. Except as directed in the Indenture, all Installment Payments and other Authority Revenues will be promptly deposited by the Trustee upon receipt thereof into the Revenue Fund; except that all moneys received by the Trustee and required by the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All Authority Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also create and maintain an Interest Account and a Principal Account within the Revenue Fund.

The Trustee will transfer from the Revenue 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 Authority 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) Not later than the third day preceding each date on which the interest on the 2016B Bonds becomes due and payable under the Indenture, the Trustee will deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all 2016B Bonds then Outstanding.

(b) Not later than the third day preceding each date on which the principal of the 2016B Bonds becomes due and payable under the Indenture, the Trustee will deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2016B Bonds coming due and payable on such date or subject to mandatory sinking fund redemption on such date.

All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2016B Bonds as it becomes due and payable (including accrued interest on any 2016B Bonds purchased prior to maturity pursuant to the Indenture).

All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2016B Bonds at maturity, mandatory sinking fund redemption (if any) or purchase; provided, however, that at any time prior to selection for redemption of any such 2016B Bonds, upon written direction of the Authority, the Trustee will apply such amounts to the purchase of 2016B 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 Interest Account) as directed pursuant to a Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the 2016B Bonds.

There has been established with the Trustee, when needed, a special fund designated as the “**Redemption Fund.**” All amounts in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal of and accrued interest on the 2016B Bonds to be redeemed on any Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2016B Bonds, upon written direction of the Authority, the Trustee will apply such amounts to the purchase of 2016B 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 Interest Account) as directed pursuant to a Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the 2016B Bonds. See the caption “THE 2016B BONDS—Redemption.”

Rate Covenant

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 Installment Payments that secure the 2016B 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 Installment Payments, Contracts and Bonds).

Installment Purchase Agreement. 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 equal to 115% of the Debt Service 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.

No Reserve Fund

Neither the Installment Purchase Agreement nor the Indenture establishes a debt service reserve fund for the 2016B Bonds.

No Acceleration Upon Event of Default

None of the Installment Purchase Agreement, the Indenture or the Master Resolution permit the Installment Payments or the 2016B Bonds to be accelerated upon an event of a default under the Installment Purchase Agreement or the Indenture, respectively. See Appendix C under the captions “INSTALLMENT PURCHASE AGREEMENT—EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY” and “INDENTURE—EVENTS OF DEFAULT AND REMEDIES OF 2016B BOND OWNERS” for further information with respect to remedies available in the event of a default under the Installment Purchase Agreement or the Indenture, respectively.

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 Installment Payments that secure the 2016B 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.”

The Master Resolution does not establish conditions to the issuance of additional Subordinate Obligations payable on a parity with the Installment Payments that secure the 2016B Bonds.

Issuance of Additional Subordinate Obligations under Installment Purchase Agreement. Pursuant to the Installment Purchase Agreement, the District may at any time execute any Contract or issue any Bonds, as the case may be, payable on a parity with the Installment Payments that secure the 2016B 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 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 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 Bonds issued since the end of such Fiscal Year assuming that such Contracts had been executed or 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 Bonds been issued at the beginning of such 12 calendar month period or Fiscal Year.

(c) Notwithstanding the foregoing, Bonds or Contracts may be issued or incurred to refund outstanding 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 Bonds or Contracts (outstanding on the date of issuance or incurrence of such refunding Bonds or Contracts, but excluding such refunding Bonds or Contracts) not being refunded are outstanding.

EASTERN MUNICIPAL WATER 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, 2015.

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, 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 23, 2015. The District represents that there has been no material change to its financial condition since June 30, 2015 that is not otherwise disclosed in this Official Statement.

THE AUTHORITY

The Authority is a public body that is duly organized and existing under the Joint Exercise of Powers Agreement, dated as of April 1, 2015 (the "**JPA Agreement**"), 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 (the "**CFD**"), and under the Constitution and laws of the State. The Authority was formed for the purpose of assisting in the financing and refinancing of capital improvement projects of the District and to finance working capital for the District by exercising the powers referred to in the JPA Agreement, including the power to issue bonds to pay the costs of public improvements. Neither the District nor the CFD is responsible for repayment of the obligations of the other. The members of the Board of Directors of the Authority are the members of the Board of Directors of the District.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters in connection with the issuance of the 2016B 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 and the Authority by Lemieux & O'Neill, Westlake Village, California, General Counsel to the District and the Authority, for the Underwriters by their counsel, Nixon Peabody LLP, Los Angeles, California, and for the Trustee by its counsel. Bond Counsel undertakes no responsibility to the purchasers of the 2016B Bonds for the accuracy, completeness or fairness of this Official Statement. Bond Counsel represents the Underwriters from time to time on matters unrelated to the 2016B Bonds.

The fees paid to Bond Counsel, Underwriters' counsel and the Financial Advisor are contingent upon the issuance of the 2016B Bonds.

LITIGATION

District

General. At the time of delivery of and payment for the 2016B Bonds, the District will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2016B Bonds, the application of the proceeds thereof in accordance with the Installment Purchase Agreement and the Indenture, or that would have a material adverse effect on the District's ability to pay the Installment Payments, or in any way contesting or affecting the validity or enforceability of the 2016B Bonds, the Indenture, the Installment Purchase Agreement, or any action of the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the District or its authority with respect to the 2016B Bonds or any action of the District contemplated by any of said documents, nor to the knowledge of the District, is there any basis therefor.

SDCWA Litigation. On July 11, 2010, the San Diego County Water Authority ("SDCWA") filed a lawsuit captioned San Diego County Water Authority v. The Metropolitan Water District of Southern California (Los Angeles Superior Court Case No. BX 126888) against The Metropolitan Water District of Southern California ("MWD"). The lawsuit challenges MWD's adoption of water rates and charges on April 13, 2010, which were effective January 1, 2011 and January 1, 2012. On June 8, 2012, SDCWA filed another lawsuit, captioned San Diego County Water Authority v. The Metropolitan Water District of Southern California (Los Angeles Superior Court Case No. BS 137830) against MWD. The lawsuit challenges MWD's rates and charges effective January 1, 2013 and January 1, 2014. On May 30, 2014, SDCWA filed a third lawsuit, captioned San Diego County Water Authority v. The Metropolitan Water District of Southern California (Los Angeles Superior Court Case No. BC547139) which challenges the validity of MWD's rates and charges effective January 1, 2015 and January 1, 2016. The allegations in the 2014 complaint are substantially similar to the allegations in the 2010 and 2012 cases. The 2014 complaint was filed in the Los Angeles Superior Court, and was transferred to the San Francisco Superior Court, where the 2010 and 2012 cases are being litigated by stipulation of the parties. As an MWD rate payer, the District is named as a real party in interest, and is participating in all three lawsuits. The third lawsuit has been stayed pending the outcome of the first two cases.

On April 13, 2016, SDCWA filed a fourth lawsuit which challenges the validity of MWD's rates and charges effective January 1, 2017 and January 1, 2018. The allegations in the 2016 complaint are substantially similar to the allegations in the 2010, 2012 and 2014 cases. On May 9, 2016, MWD filed a motion to transfer venue in the 2016 complaint from Los Angeles County. The District is unable to assess at this time the likelihood of success of the 2016 complaint, any possible appeal or any future claims.

A hearing regarding the validity of MWD's rates under the 2010 and 2012 complaints commenced in December 2013 in the San Francisco Superior Court. SDCWA alleges that MWD's water rates improperly allocated certain MWD costs, resulting in an overcharge to SDCWA. SDCWA alleges 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 court issued a final statement of decision in favor of SDCWA, finding no substantial evidence in the administrative record to support the inclusion of certain cost elements in MWD's water rates (in particular, MWD's System Access Rate and Water Stewardship Rate). The court cannot lawfully order MWD to adopt a particular rate structure.

The two remaining civil claims were tried in March and April 2015. The District is not a defendant on the remaining claims, which are: (a) a claim for declaratory relief based on MWD's alleged miscalculation of SDCWA's preferential rights to water; and (b) a claim for breach of an agreement known as the Exchange

Agreement against MWD. The parties disputed the correct measure of damages for a breach of the Exchange Agreement, and whether the court can award damages at this stage.

Final judgment was entered by the San Francisco Superior Court on November 18, 2015, in favor of SDCWA and against MWD on most of the causes of action in the 2010 and 2012 cases. The court awarded SDCWA damages in the amount of \$188,295,602 and interest in the amount of \$46,637,180, resulting in a total award of \$234,932,782. The District understands that MWD has set aside money to pay for a portion of such amounts. An award of attorneys' fees and costs is pending.

MWD and the member agencies have filed a notice of appeal of the trial court decision. In the event that the trial court verdict is eventually upheld on appeal, the District's MWD water charges could increase. Because the District's policy is to pass MWD water rate increases through to imported water customers, the District does not believe that such an increase by MWD would have a material adverse effect on the ability of the District to pay the Installment Payments.

Authority

At the time of delivery of and payment for the 2016B Bonds, the Authority will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority affecting the existence of the Authority or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2016B Bonds, the application of the proceeds thereof in accordance with the Installment Purchase Agreement and the Indenture, or that would have a material adverse effect on the Authority's ability to pay the 2016B Bonds, or in any way contesting or affecting the validity or enforceability of the 2016B Bonds, the Indenture, the Installment Purchase Agreement, or any action of the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Authority or its authority with respect to the 2016B Bonds or any action of the Authority contemplated by any of said documents, nor to the knowledge of the Authority, is there any basis therefor.

TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, 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 (and original issue discount) on the 2016B 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 and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2016B Bonds is exempt from State personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2016B Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a 2016B Bond (the first price at which a substantial amount of the 2016B Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2016B Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2016B Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the 2016B Bond Owner will increase the 2016B Bond Owner's basis in the 2016B Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the 2016B Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

The amount by which a 2016B Bond Owner's original basis for determining loss on sale or exchange in the applicable 2016B Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the 2016B Bond Owner's basis in the applicable 2016B Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2016B Bond Owner realizing a taxable gain when a 2016B Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2016B Bond to the Owner. Purchasers of the 2016B Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the 2016B Bonds is based upon certain representations of fact and certifications made by the Authority and the District and is subject to the condition that the Authority and the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2016B Bonds to assure that interest (and original issue discount) on the 2016B 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 (and original issue discount) on the 2016B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016B Bonds. The Authority and the District have covenanted to comply with all such requirements, as applicable.

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 2016B Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2016B Bonds might be affected as a result of such an audit of the 2016B 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 2016B Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2016B Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2016B BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2016B BONDS OR THE MARKET VALUE OF THE 2016B BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2016B BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2016B BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2016B BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2016B 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 2016B BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the 2016B Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture, the Installment Purchase Agreement and the Tax Certificate relating to the 2016B 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 (and original issue discount) on the 2016B Bonds for federal income tax purposes with respect to any 2016B 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 (and original issue discount) on the 2016B Bonds is excluded from gross income for federal income tax purposes provided that the Authority continues to comply with certain requirements of the Code, the ownership of the 2016B Bonds and the accrual or receipt of interest (and original issue discount) on the 2016B 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 2016B Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2016B Bonds.

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

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and Beneficial Owners of the 2016B 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**"), commencing February 1, 2017 with the report for Fiscal Year ended June 30, 2016, 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 the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system, which can be found at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and any Material Event Notice is set forth in Appendix F. These covenants have been made in order to assist the Underwriters 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 Annual Reports for Fiscal Year 2013 for the District's Parity Obligations were filed between 2 and 4 days after the dates required for such filings, but in each case on or prior to December 31 of the applicable calendar year.

(2) The Annual Reports for Fiscal Year 2012 for the District's Parity Obligations and for Fiscal Year 2013 for the Western Riverside Water and Wastewater Financing Authority Revenue Bonds, Series 2005A and Series 2009A (which are general obligations of the District) were filed after the dates required for such filings, in each case after December 31 of the applicable calendar year.

(3) Of the approximately 50 outstanding debt issuances of community facilities districts created by the District (the "**CFD Bonds**"), one report for Fiscal Year 2013 and one report for Fiscal Year 2012 were filed after the dates required for such filings. Although the District is not the "obligated person" for purposes of the Rule with respect to the CFD Bonds, District staff is responsible for preparing the annual reports for the CFD Bonds.

(4) In the last five Fiscal Years, the District did not timely file all significant event notices of changes in the ratings of certain Parity 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 Parity Obligations and upgrades in the underlying ratings for certain Parity Obligations.

(5) For Fiscal Year 2011, certain of the District's annual reports contained hyperlinks to the District's audited financial statements. The District has since filed the audited financial statements directly with EMMA.

(6) The Annual Reports for Fiscal Year 2015 for certain District general obligation bonds were filed with EMMA approximately 9 days after the filing deadline.

(7) The District filed notice of a February 2016 upgrade to the ratings of its Parity Obligations and Subordinate Obligations by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, more than ten Business Days after such upgrade occurred.

On April 30, 2014, the District's Board adopted continuing disclosure policies and procedures and District staff have undergone training to ensure compliance with continuing disclosure undertakings in the future.

RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**"), Moody's Investors Service, Inc. ("**Moody's**") and Fitch Ratings, Inc. ("**Fitch**") have assigned the 2016B Bonds the ratings of "AA", "Aa3" and "AA+", respectively. There is no assurance that any credit rating that is given to the 2016B Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P, Moody's or Fitch if, in the judgment of S&P, Moody's or Fitch, respectively, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2016B Bonds. Such ratings reflect only the views of S&P, Moody's and Fitch, respectively, and an explanation of the significance of such ratings may be obtained from S&P, Moody's and Fitch, respectively. 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.

FINANCIAL ADVISOR

The District has retained Public Financial Management Inc., Los Angeles, California, as financial advisor (the "**Financial Advisor**") in connection with the issuance of the 2016B Bonds. The Financial 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 Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

UNDERWRITING

The 2016B Bonds are being purchased pursuant to a Contract of Purchase, dated the date hereof (the "**Purchase Contract**"), by and among the Authority, the District and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of itself, Citigroup Global Markets Inc. ("**Citigroup**"), Stifel, Nicolaus & Company, Incorporated and Morgan Stanley & Co. LLC (collectively, the "Underwriters"), at a purchase price of \$152,422,925.75 (representing the par amount of the 2016B Bonds, less an Underwriters' discount of \$220,360.60, plus an original premium of \$27,718,286.35). The Purchase Contract provides that the Underwriters will purchase all of the 2016B Bonds if any are purchased.

The Underwriters may offer and sell the 2016B Bonds to certain dealers (including dealers depositing the 2016B 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 Underwriters.

Citigroup, one of the Underwriters of the 2016B Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. (“TMC”) and UBS Financial Services Inc. (“UBSFS”). Under these distribution agreements, Citigroup may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the 2016B Bonds.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, one of the Underwriters of the 2016B Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2016B Bonds.

The Underwriters and their respective 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 Underwriters and their affiliates may have certain creditor and/or other rights against the District or the Authority and their respective affiliates in connection with such activities. In the various course of their various business activities, the Underwriters and their respective 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 or the Authority (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District or the Authority. The Underwriters and their respective 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.

REGISTERED INVESTMENT ADVISOR

Raymond James & Associates acted as registered investment advisor to the District in its capacity as bidding agent in conducting a competitive bid procurement process for the purchase of open market securities to be held in the 2008H Escrow Fund. Raymond James & Associates will receive compensation for bidding agent services contingent on the sale and delivery of the 2016B Bonds.

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MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the 2016B Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Authority and the District.

**EASTERN MUNICIPAL WATER DISTRICT
FINANCING AUTHORITY**

By: /s/Paul D. Jones II, P.E.
Executive Director

EASTERN MUNICIPAL WATER DISTRICT

By: /s/Paul D. Jones II, P.E.
General Manager

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 48% of its water supply (including approximately 76% of its potable water supply) from The Metropolitan Water District of Southern California (“**MWD**”) and derives approximately 52% of its water supply (including approximately 24% 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. In addition, the District provides Water and Sewer Service to retail customers located within these special improvement districts and the charges for such service 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. The proceeds of such share 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. 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**”).

Board of Directors and Management

Board of Directors. The District is governed by a five-member 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. The Board 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 Board.

Randy A. Record – Board President. A fifth-generation San Jacinto native, Randy A. Record has been active in the farming community for over three decades. A 1976 graduate of California State Polytechnic University, San Luis Obispo, President Record holds a Bachelor of Science degree in agricultural management, continuing his education in irrigation management. President Record was first elected to the Board effective January 8, 2001, and previously served a two-year term as Board President. Beginning in January 2003, he has represented the District on the MWD Board and is its current 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. President Record is a past President of the Association of California Water Agencies (“**ACWA**”). His Board term expires in January 2017.

David J. Slawson – Board Vice President. A Board member since January 1995, David J. Slawson served as Board President from January 2007 to January 2009. 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. He 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 Operations/Engineering Committee. He also serves as the liaison with Elsinore Valley Municipal Water District, is the alternate commissioner on the Santa Ana Watershed Project Authority (“**SAWPA**”) and serves as a representative to the Western Region Council of Governments. His Board term expires in January 2019.

Joseph J. Kuebler, CPA – Director and Board Treasurer. The Board treasurer since May 1996, and a Board member since April 2006, Joseph J. Kuebler is a member of PKC Kuebler, one of southwest Riverside County’s leading CPA practices serving a large client base of companies in the real estate development, engineering, medical, retail and agricultural industries. Mr. Kuebler was appointed Chair of Region 9 of ACWA in December 2005 and served on its statewide board of directors for two years. He has represented the District at numerous ACWA conferences as well as other civic and industry functions. His current committee responsibilities include the Administrative and Deferred Compensation Administrative Oversight Committees, and he serves as the liaison to Rancho California Water District and the Pechanga Tribal Committee. Unchallenged in the 2014 election, his Board term will expire in January 2019.

Philip E. Paule – Director. A Board member since 2007, Philip E. Paule was re-elected to another four-year term in 2014. He is a graduate of California State University, Fullerton and has worked at various levels of government for the past two decades. Mr. Paule served as Board President from 2013 to 2014 and currently serves on the Board’s Executive and Administrative Committees, as well as the Ad Hoc

Committees for the Hemet/San Jacinto Groundwater Management Plan and the Lake Hemet Municipal Water District. He also serves as a liaison to Western Municipal Water District and the Soboba Tribal Committee. Mr. Paule is on the Executive Committee of CalDesal. Unchallenged in the 2014 election, his Board term will expire in January 2019.

Ronald W. Sullivan – Director. A Board member since January 2003, Ronald W. Sullivan has a wide variety of experience with city and county organizations, including as chair of the Riverside County Planning Commission, City of Hemet Planning Commission and Riverside County Aviation Commission. Mr. Sullivan previously served on the staff of former State Senator Marian Bergeson. A licensed general contractor, he is experienced in real estate planning, design, development, and construction. He is an owner in Sullivan & Sullivan R.E. Group Inc. Mr. Sullivan serves on the Planning and Operations/Engineering Committees. He is also the past chair of SAWPA and continues as a commissioner from the District. He represents the District on the ACWA’s Local Government Committee, and the Western Riverside Water and Wastewater Financing Authority. He is also liaison to Elsinore Valley Water District, Western Municipal Water District and the Pechanga Tribal Committee. His Board term expires in January 2017.

Management.

Paul D. Jones II, P.E. – General Manager. Paul D. Jones II, General Manager, was appointed general manager in July 2011 and heads a staff of approximately 614 employees. Previously, Mr. Jones was the General Manager of the Irvine Ranch Water District (“**IRWD**”) from 1999 to 2011. Under his leadership, IRWD became known for diverse and highly reliable water supply and storage portfolios. While at IRWD, he was instrumental in the development of creative urban runoff treatment programs and natural resource management at the San Joaquin Marsh and Wildlife Sanctuary. Like the District, IRWD operates extensive sewer and recycled water systems. Prior to his service at IRWD, Mr. Jones was the General Manager of both West Basin Municipal Water District and Central Basin Municipal Water District in Carson, California. There he was responsible for the operation of two wholesale water districts governed by separate elected boards. Mr. Jones previously worked for a private environmental engineering firm and served as senior engineer and assistant to the general manager of Municipal Water District of Orange County. Mr. Jones also served as director of regional infrastructure planning and manager of infrastructure project engineering with The Irvine Company. Mr. Jones received his Bachelor of Science degree in civil engineering with an emphasis in water resources from California State Polytechnic University, Pomona and is a registered professional engineer in the State of California.

Debby Cherney – Deputy General Manager. Debby Cherney, Deputy General Manager, joined the District in August 2012. 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. Cherney was the Executive Director of Finance and Administrative Services at IRWD for seven years. Prior to her service at IRWD, Ms. Cherney spent 15 years in management consulting, working with public agencies and private companies. She is a Certified Public Accountant, licensed in the State of California. Ms. Cherney currently serves as the Chair of the Women’s Public Finance Network of the Government Finance Officers Association of the United States and Canada (“**GFOA**”), and also serves as the chair GFOA’s advisory Committee on Retirement and Benefits Administration. She has a Bachelor’s degree from Claremont McKenna College (*Cum Laude*) and a Masters of Business Administration degree (*Cum Laude*) from the University of California, Irvine.

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 (“**OCS**D”), where he was responsible for the planning, design and construction of OCS D’s approximately \$2 billion capital improvement program. Prior to his service at OCS D, 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 over thirty 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.

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 over 25 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 three years as the Director of Water Reclamation at the District. 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.

Charles J. Bachmann – Assistant General Manager, Planning, Engineering, and Construction. Charles J. Bachmann, Assistant General Manager, Planning, Engineering, and Construction, joined the District in 1992. He has over 30 years' experience in engineering and management and is a registered professional engineer in the State of California. Mr. Bachmann's area of expertise is water and wastewater engineering. Prior to joining the District, he was associated with several engineering consulting firms in southern California and New York. Mr. Bachmann received his Bachelor of Science degree (*Cum Laude*) from the State University of New York's College of Environmental Science and Forestry. He holds a Masters of Science degree in civil engineering, sanitary emphasis, from the University of Southern California.

Charles Turner – Director of Finance. Charles Turner, Director of Finance, joined the District in 2008. 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. Turner was the Director of Financial Management for the Port of Los Angeles, where he was responsible for financial planning and forecasts, financial analysis, lease negotiations, and credit/collections. Prior to joining the Port of Los Angeles, he served as a financial advisor to municipal agencies and special districts. Mr. Turner received a Bachelor's degree in Finance from California State University, Long Beach.

Employee Relations

As of July 1, 2016, the District had 614 employees, of which 17 were in the Executive branch, 173 were in the Administrative Services branch, 265 were in the Operations and Maintenance branch and 159 were in the Engineering, Planning & Construction branch. The District's single bargaining unit, which includes 457 employees, is represented by the International Brotherhood of Electrical Workers Local 1436 (the "Union"). The District's memorandum of understanding (the "MOU") with the bargaining unit was approved in October 2013 and expired on July 23, 2016. Among the major agreements reached in that MOU, the District negotiated the implementation of a new lower tier of retiree medical benefits for future employees, negotiated additional employee and retiree contributions to monthly medical premiums and negotiated additional employee pension contributions. See the caption "HISTORICAL FINANCIAL OPERATIONS—Pension Plan." In exchange, the District provided a minimum cost-of-living adjustment to employee wages through the expiration of the current MOU. The District and the Union have reached a final agreement for a new MOU, which has been ratified by the Union's membership and by the District's Board of Directors. Labor and management enjoy 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 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 for the District was prepared by this consultant, concluding 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. A property appraisal and seismic analysis (the "**Report**") was performed in February 2007 at the District's five wastewater reclamation facilities, main offices, warehouse and shops and water storage facilities. See the caption "—Seismic Considerations."

The Report was prepared in conformity with generally accepted appraisal practices for purposes of establishing insurable values and property records. The Report provides replacement costs for structures and equipment at the above-described facilities in the event of a loss and summarizes values by location and by buildings with site maps for each facility. Construction data include types of construction materials, square footage, fire underwriter's classification, and insurable values.

Property Insurance Coverage. The District maintains blanket Special Form insurance coverage for its buildings and equipment, 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.

Debt Structure of the District

Parity Obligations. Pursuant to the Master Resolution, the District has issued revenue bonds and entered into certain outstanding installment sale agreements which are secured by a pledge of and lien on Net Water and Sewer Revenues and constitute "Parity Obligations" under the Master Resolution. The Parity Obligations are payable from Net Water and Sewer Revenues on a senior basis to the District's Refunding Water and Wastewater Revenue Bonds, Series 2016B (the "**2016B Bonds**").

The District has entered into various installment sale agreements and, in turn, caused the execution and delivery of various related series of certificates of participation, all in order to fund the District's ongoing capital improvement plan. See the caption "THE CAPITAL IMPROVEMENT PLAN." Each such installment sale agreement has required the District to make installment payments from the District's Net Water and Sewer Revenues on deposit in the Installment Payment Fund held under the Master Resolution, and the District's obligation to make each such installment payment has been secured in accordance with the terms of the Master

Resolution. The District's obligations to pay Installment Sale Payments (as such term is defined in the Master Resolution) under such installment sale agreements from the District's Net Water and Sewer Revenues are senior to the District's obligation to pay principal of and interest on the 2016B Bonds.

The District's Refunding Water and Sewer Revenue Bonds, Series 2012A (the "**Series 2012A Bonds**") and the Refunding Water and Sewer Revenue Bonds, Series 2013A (the "**Series 2013A Bonds**") are SIFMA-based index tender bonds that are subject to periodic scheduled mandatory tenders. Such instruments are subject to certain risks, including but not limited to the risk that the District may not have sufficient remarketing proceeds or funds on hand on any scheduled mandatory tender date to pay the purchase price of such obligations upon the mandatory tender thereof. The District has not currently provided for any liquidity facility to support the payment of the purchase price upon mandatory tender of the Series 2012A Bonds or the Series 2013A Bonds. In the event that the District does not have sufficient funds to pay the purchase price of the Series 2012A Bonds or the Series 2013A 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 Series 2012A Bonds or the Series 2013A Bonds, as applicable, prior to such date; or (ii) to provide for the conversion of the Series 2012A Bonds or the Series 2013A Bonds, as applicable, to another mode in accordance with the indentures pursuant to which such obligations were issued 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 Series 2012A Bonds or Series 2013A Bonds, as applicable, upon the mandatory tender thereof.

A variety of events could prevent access to the municipal securities market, prohibit the District from issuing such refunding obligations or remarketing the Series 2012A Bonds or the Series 2013A Bonds, as applicable, or make the issuance of refunding obligations or the remarketing of the Series 2012A Bonds or the Series 2013A 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 upon a mandatory tender constitutes an event of default under the indentures pursuant to which the Series 2012A Bonds and the Series 2013A Bonds were issued.

The following table sets forth the District's certificates of participation and revenue bonds payable from Installment Sale Payments that are Parity Obligations under the Master Resolution outstanding as of August 1, 2016.

TABLE 1
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Parity Obligations

<i>Name of Issue</i>	<i>Original Amount Issued</i>	<i>Principal Outstanding As of August 1, 2016</i>
Refunding Certificates of Participation, Series 2007A	\$ 20,710,000	\$ 20,135,000
Refunding Certificates of Participation, Series 2008C ⁽²⁾⁽³⁾	54,400,000	47,545,000
Certificates of Participation, Series 2008H ⁽¹⁾	140,035,000	140,035,000
Refunding Water and Sewer Revenue Bonds, Series 2011A	56,255,000	26,150,000
Refunding Water and Sewer Revenue Bonds, Series 2012A	50,000,000	50,000,000
Refunding Water and Sewer Revenue Bonds, Series 2013A	<u>54,575,000</u>	<u>54,575,000</u>
Total	<u>\$ 375,975,000</u>	<u>\$ 338,440,000</u>

⁽¹⁾ The District intends to defease these obligations from proceeds of the 2016B Bonds on or about the date of issuance of the 2016B Bonds. See the Official Statement under the caption “THE REFUNDING PLAN.”

⁽²⁾ The District maintains an Interest Rate Swap Agreement with Wells Fargo Bank, N.A. (“WFB”) that presently corresponds to the interest rates borne by these obligations. The District’s obligation to make regularly scheduled payments under such Interest Rate Swap Agreement is payable from Net Revenues on a parity with payment of the 2016B Bonds and the District’s obligation to make termination payments under such Interest Rate Swap Agreement is payable from Net Revenues on a subordinate basis to payment of the 2016B Bonds. See the caption “—Interest Rate Swap Agreements—2008C Interest Rate Swap Agreement.”

⁽³⁾ Liquidity support provided by a Standby Certificate Purchase Agreement with U.S. Bank National Association that expires on December 11, 2017. Certain amounts payable thereunder constitute Parity Obligations which are payable from Net Water and Sewer Revenues on a senior basis to the 2016B Bonds.

Source: Eastern Municipal Water District.

Interest Rate Swap Agreements.

General. As of August 1, 2016, the District had outstanding the following interest rate swap agreements (collectively, the “**Interest Rate Swap Agreements**”) with the following counterparties (collectively, the “**Swap Providers**”) in the aggregate notional amount of \$82,145,000:

<i>Related Bond Issue</i>	<i>Notional Amount</i>	<i>Swap Providers</i>	<i>District Pays</i>	<i>District Receives</i>	<i>Scheduled Maturity/ Termination Date</i>
Refunding Water and Wastewater Revenue Bonds, Series 2014C (the “2014C Bonds”)	\$54,150,000	Wells Fargo Bank, National Association	3.10 %	66% of 1 month LIBOR	7/1/2030
Water and Sewer Revenue Refunding Variable Rate Certificates of Participation, Series 2008C (the “2008C Certificates”)	27,995,000	Wells Fargo Bank, National Association	5.125	SIFMA	7/1/2020

Source: Eastern Municipal Water District.

In the event of early termination of an Interest Rate Swap Agreement, there can be no assurance that: (i) the District will receive any termination payment payable to the District by the applicable Swap Provider; (ii) the District will have sufficient amounts to pay any termination payment payable by it to the applicable Swap Provider; or (iii) the District will be able to obtain a replacement Interest Rate Swap Agreement with comparable terms.

There is no guarantee that the floating rate that is payable to the District pursuant to each of the Interest Rate Swap Agreements will match the variable interest rate on the associated obligations to which the respective Interest Rate Swap Agreement relates at all times or at any time. Under certain circumstances, the counterparty to an Interest Rate Swap Agreement may be obligated to make a payment to the District under its respective Interest Rate Swap Agreement that is less than the interest due on the associated obligations to which such Interest Rate Swap Agreement relates. In such event, the District would be obligated to pay such insufficiency from Net Water and Sewer Revenues.

Pursuant to the terms of the Interest Rate Swap Agreements, the District is required to post collateral in favor of the applicable counterparty to the extent that the District's total exposure for termination payments to such counterparty exceeds the threshold specified in the applicable Interest Rate Swap Agreement. Conversely, the counterparties are required to release collateral to the District as market conditions become favorable to the District and may be required to post collateral for the benefit of the District to the extent that such counterparty's total exposure for termination payments to the District exceeds the threshold specified in the applicable Interest Rate Swap Agreement. As of August 1, 2016, the District has never been required to post collateral under either Interest Rate Swap Agreement. However, there can be no assurance that the District will not be required to post collateral in the future. Collateral deposited by the District would be held by the applicable counterparty or an agent therefor and a bankruptcy of any counterparty holding collateral posted by the District could adversely affect the return of the collateral to the District. Moreover, posting collateral limits the District's liquidity. If collateral requirements increase significantly, the District's liquidity may be adversely affected.

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 Indenture. As of June 30, 2016, the mark-to-market value of the Interest Rate Swap Agreements was negative \$12,354,190 with respect to the Interest Rate Swap Agreement relating to the 2014C Bonds (the "**2014C Swap**") and negative \$3,754,427 with respect to the Interest Rate Swap Agreement relating to the 2008C Certificates (the "**2008C Swap**").

2014C Interest Rate Swap Agreement. The obligation of the District to make regularly scheduled payments to WFB, the Swap Provider under the 2014C Swap, is payable from Net Revenues on a parity with the 2016B Bonds. Under certain circumstances, including but not limited to a downgrade of the ratings applicable to the 2014C Bonds or other subordinate obligations, the 2014C Swap may be terminated and the District may be required to make a substantial termination payment to WFB. Pursuant to the 2014C Swap, any such termination payment owed by the District would be payable from Net Revenues on basis immediately subordinate to the 2016B Bonds.

2008C Interest Rate Swap Agreement. The obligation of the District to make regularly scheduled payments to WFB, the Swap Provider under the 2008C Swap, is payable from Net Revenues on a parity with the 2016B Bonds. Under certain circumstances, including but not limited to a downgrade of the ratings applicable to the 2008C Certificates or other Parity Obligations, an event of taxability with respect to the 2008C Certificates or a conversion of the interest rate mode with respect to the 2008C Certificates, the 2008C Swap may be terminated and the District may be required to make a substantial termination payment to WFB. Any such termination payment owed by the District pursuant to the WFB Swap would be payable from Net Revenues on a basis immediately subordinate to the 2016B Bonds.

The 2008C Certificates mature in 2046, which is later than the scheduled termination date of the 2008C Swap in 2020. Accordingly, the outstanding principal amount of the 2008C Certificates no longer matches the notional amount of the 2008C Swap and, as a result, a portion of the 2008C Certificates will be unhedged. Such unhedged portion will grow each year as the notional amount of the 2008C Swap declines until the 2020 termination of the 2008C Swap, after which time none of the 2008C Certificates will be hedged.

Subordinate State Loans. The District has entered into four different loan contracts (each, a “**State Loan**”) to fund certain costs related to design and construction of District infrastructure in accordance with the terms of each State Loan. One of the State Loan contracts was entered into with the State of California Department of Water Resources (“**DWR**”) and three were entered into with the State Water Resources Control Board (the “**SWRCB**”). Under each State Loan, the District borrowed money in increments as the District incurred costs approved as part of the costs of the project financed from such State Loan. 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 Loan repayments are payable from Net Revenues on a parity with the 2016B Bonds. The following table sets forth the State Loans related to completed projects which the District is currently repaying:

TABLE 2
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Subordinate State Loan 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	\$ 22,792,502	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	31,234,639	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	37,553,551	3/16/2033
4. State Revolving Fund No. C-06-7831-110 ⁽²⁾	Recycled Water Pond Expansion and Optimization	30 years	1.00	<u>11,246,300</u>	<u>7,798,170</u>	11/30/2046
Total				<u>\$ 135,555,636</u>	<u>\$ 99,378,862</u>	

⁽¹⁾ As of August 1, 2016.

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

Source: Eastern Municipal Water District.

The District has applied for an additional State Loan in the approximate amount of \$99,000,000 to finance an expansion of the Temecula Valley Regional Wastewater Recovery Facility (the “**Temecula Valley RWRf**”). The project is also expected to be funded in part from a \$15,000,000 grant from the State of California. The project objectives are to increase the Temecula Valley RWRf’s capacity from 18.0 million gallons per day (“**mgd**”) to 23.0 mgd. The additional Temecula Valley RWRf State Loan has not yet been approved. If approved, the additional Temecula Valley RWRf State Loan is expected to reflect semi-annual payments over a 30 year period payable from Net Revenues on a parity with the 2016B Bonds. See the caption “**WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Wastewater Facilities.**” Projected debt service figures shown herein do not reflect the execution of the additional Temecula Valley RWRf State Loan.

Subordinate Obligations. In addition to the Interest Rate Swap Agreements described above under the caption “—Interest Rate Swap Agreements” and the State Loans described above under the caption “—Subordinate State Loans,” District obligations that are payable from Net Revenues on a parity with the 2016B Bonds (the “**Subordinate Obligations**”) are set forth in the following table:

TABLE 3
EASTERN MUNICIPAL WATER DISTRICT
Outstanding Subordinate Obligations

<i>Name of Issue</i>	<i>Original Amount Issued</i>	<i>Principal Outstanding As of August 1, 2016</i>
Refunding Water and Wastewater Revenue Bonds, Series 2014A (the “ 2014A Bonds ”) ⁽¹⁾	\$ 48,645,000	\$ 48,645,000
Refunding Water and Wastewater Revenue Bonds, Series 2014B (the “ 2014B Bonds ”) ⁽²⁾	45,175,000	45,175,000
2014C Bonds ⁽³⁾	54,765,000	54,150,000
Refunding Water and Wastewater Revenue Bonds, Series 2015A ⁽⁴⁾	50,000,000	50,000,000
Water and Wastewater Revenue Bonds, Series 2015B ⁽⁵⁾	74,430,000	74,430,000
Refunding Water and Wastewater Revenue Bonds, Series 2016A	<u>209,230,000</u>	<u>205,330,000</u>
Total	<u>\$ 482,245,000</u>	<u>\$ 477,730,000</u>

⁽¹⁾ Liquidity support provided by a Standby Bond Purchase Agreement with WFB expiring on June 11, 2017. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the 2016B Bonds.

⁽²⁾ Liquidity support provided by a Standby Bond Purchase Agreement with WFB expiring on October 6, 2017. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the 2016B Bonds.

⁽³⁾ Liquidity support provided by a Standby Bond Purchase Agreement with WFB expiring on October 27, 2017. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the 2016B Bonds. The District maintains an Interest Rate Swap Agreement with WFB related to the 2014C Bonds. The District’s obligation to make regularly scheduled payments under such Interest Rate Swap Agreement is payable from Net Revenues on a parity with payment of the 2016B Bonds and the District’s obligation to make termination payments under such Interest Rate Swap Agreement is payable from Net Revenues on a basis immediately subordinate to the 2016B Bonds. See the caption “—Interest Rate Swap Agreements—2014C Interest Rate Swap Agreement.”

⁽⁴⁾ Liquidity support provided by a Standby Bond Purchase Agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. expiring on June 22, 2018. Amounts payable thereunder constitute Subordinate Obligations which are payable from Net Revenues on a parity with the 2016B Bonds.

⁽⁵⁾ The Water and Wastewater Revenue Bonds, Series 2015B (the “**2015B Bonds**”) were issued by the Eastern Municipal Water District Financing Authority (the “**EMW DFA**”), a joint exercise of powers authority of which the District is a member. The District’s obligations under an installment purchase agreement with the EMW DFA (the “**2015B IPA**”), which secure the 2015B Bonds, are payable from Net Revenues on a parity with the 2016B Bonds.

Source: Eastern Municipal Water District.

Summary of Debt Service. The following table summarizes projected debt service with respect to: (i) the District’s outstanding Parity Obligations; and (ii) debt service on the 2016B Bonds and other Subordinate Obligations.

TABLE 4
EASTERN MUNICIPAL WATER DISTRICT
Debt Service Schedule

Subordinate Obligations

<i>Period Ending June 30</i>	<i>Total Parity Obligation Debt Service⁽¹⁾⁽²⁾</i>	<i>2016B Bonds Principal</i>	<i>2016B Bonds Interest</i>	<i>Subordinate Obligation Debt Service⁽³⁾</i>	<i>Subordinate State Loans Debt Service⁽⁴⁾</i>	<i>Total Debt Service</i>
2017	\$ 16,629,756	\$ -	\$ 1,697,332	\$ 22,033,921	\$ 6,521,018	\$ 46,882,028
2018	12,099,456	1,300,000	5,697,650	25,676,823	6,736,819	51,510,748
2019	12,074,706	1,350,000	5,650,900	25,691,000	6,824,930	51,591,537
2020	12,064,631	1,420,000	5,581,650	25,648,631	6,824,930	51,539,843
2021	11,677,053	1,490,000	5,508,900	25,672,027	6,824,930	51,172,910
2022	12,369,200	-	5,471,650	27,985,721	6,824,930	52,651,501
2023	12,360,450	-	5,471,650	28,001,217	6,824,930	52,658,247
2024	12,355,700	-	5,471,650	27,686,760	6,824,930	52,339,040
2025	9,007,123	2,615,000	5,406,275	30,195,723	6,824,930	54,049,051
2026	9,009,456	2,755,000	5,285,800	30,176,289	6,824,930	54,051,475
2027	8,982,692	2,900,000	5,172,700	30,170,547	6,824,930	54,050,869
2028	8,932,544	3,065,000	5,038,075	30,186,576	6,824,930	54,047,125
2029	8,946,825	4,305,000	4,853,825	30,168,725	5,772,470	54,046,845
2030	8,926,294	5,625,000	4,605,575	30,171,068	4,720,011	54,047,948
2031	8,905,877	5,935,000	4,316,575	30,172,174	4,720,011	54,049,636
2032	8,875,721	14,590,000	3,803,450	22,058,150	4,720,011	54,047,332
2033	8,845,679	15,375,000	3,054,325	22,054,775	4,720,011	54,049,790
2034	8,854,294	18,195,000	2,215,075	22,045,275	303,912	51,613,556
2035	8,832,235	21,545,000	1,329,300	22,038,650	303,912	54,049,097
2036	8,799,738	22,460,000	449,200	22,033,650	303,912	54,046,500
2037	18,900,742	-	-	32,435,942	303,912	51,640,595
2038	19,027,963	-	-	32,569,538	303,912	51,901,412
2039	19,004,504	-	-	32,543,579	303,912	51,851,995
2040	6,726,279	-	-	32,858,373	303,912	39,888,564
2041	6,727,133	-	-	32,865,088	303,912	39,896,133
2042	6,726,177	-	-	32,860,685	303,912	39,890,775
2043	6,728,075	-	-	32,857,373	303,912	39,889,360
2044	6,727,638	-	-	32,859,344	303,912	39,890,893
2045	6,729,529	-	-	32,865,008	303,912	39,898,450
2046	6,728,560	-	-	31,924,727	303,912	38,957,200
2047	6,724,556	-	-	24,487,544	303,912	31,516,012
TOTAL	\$319,300,586	\$124,925,000	\$86,081,557	\$880,994,904	\$110,414,418	\$ 1,521,716,465

(1) Includes debt service on outstanding Parity Obligations listed on Table 1 under the caption “—Installment Sale Agreements/Certificates of Participation and Revenue Bonds.” Excludes debt service with respect to the 2008H Certificates, which will be prepaid from proceeds of the 2016B Bonds, as discussed in the Official Statement under the caption “THE REFUNDING PLAN.”

(2) Interest on the variable rate 2008C Certificates is calculated at the assumed 2008C Swap rate of 5.125% per annum through the amortization of the 2008C Swap on July 1, 2020. Interest on the 2008C Certificates after July 1, 2020, the Series 2012A Bonds and the Series 2013A Bonds is calculated at an assumed interest rate of 3.50% per annum.

(3) Reflects debt service on 2014A Bonds, 2014B Bonds and 2015A Bonds at a projected interest rate of 3.50% per annum and debt service on 2014C Bonds at 2014C Swap rate of 3.10% per annum. Differs from the projected debt service set forth in Table 20 as a result of differing interest rate assumptions for variable rate obligations. Reflects scheduled debt service on 2015B IPA and 2016A Bonds as set forth in Table 3 under the caption “—Subordinate Obligations.”

(4) Reflects debt service on subordinate State Loans described in Table 2 under the caption “—Subordinate State Loans.”

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 \$34,540,000 aggregate principal amount remained outstanding as of August 1, 2016. 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 August 1, 2016. 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.

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 2016B Bonds. No such amounts are currently outstanding.

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, 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 includes, *inter alia*, a general fund reserve, construction reserves and a 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 5% 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 in the discretion of the Board. Neither the Indenture nor the Installment Purchase Agreement require the District to maintain a debt service reserve fund for the 2016B Bonds. As of June 30, 2016, the District had approximately \$300,131,000 in available cash reserves, representing approximately 596 days cash on hand. The District's total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately \$439,471,692 and is invested in various securities with an average yield of approximately 0.89% as of June 30, 2016. See Note 2 in Appendix B for further information with respect to District reserves.

Seismic Considerations

In October 1992, a District consultant conducted an earthquake loss and risk screening for the District's main facilities. For the purposes of such study, the main facilities included the District's headquarters, five reclamation facilities and 60 steel water storage tanks. 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. Additionally, the study provided the basis for examining the adequacy of earthquake insurance coverage and recommending risk diversification and risk reduction strategies.

This 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 water reclamation facility structures are expected to experience relatively moderate damage in a 7.5 magnitude earthquake. The impact of lesser magnitude events is expected by the District to be temporary, localized and repairable. District facilities are designed to withstand earthquakes with minimal damage. The water reclamation 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. This agreement 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 Emergency Management Agency 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. The Hazard Mitigation Plan was updated in December 2011 and was financed through a Department of Homeland Security grant.

DISTRICT SERVICE AREA

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. 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 and 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 2.4 million as of Fiscal Year 2015. 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 2016 was approximately 803,973.

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 ⁽³⁾	237,911
2016	803,973	143,517	241,210

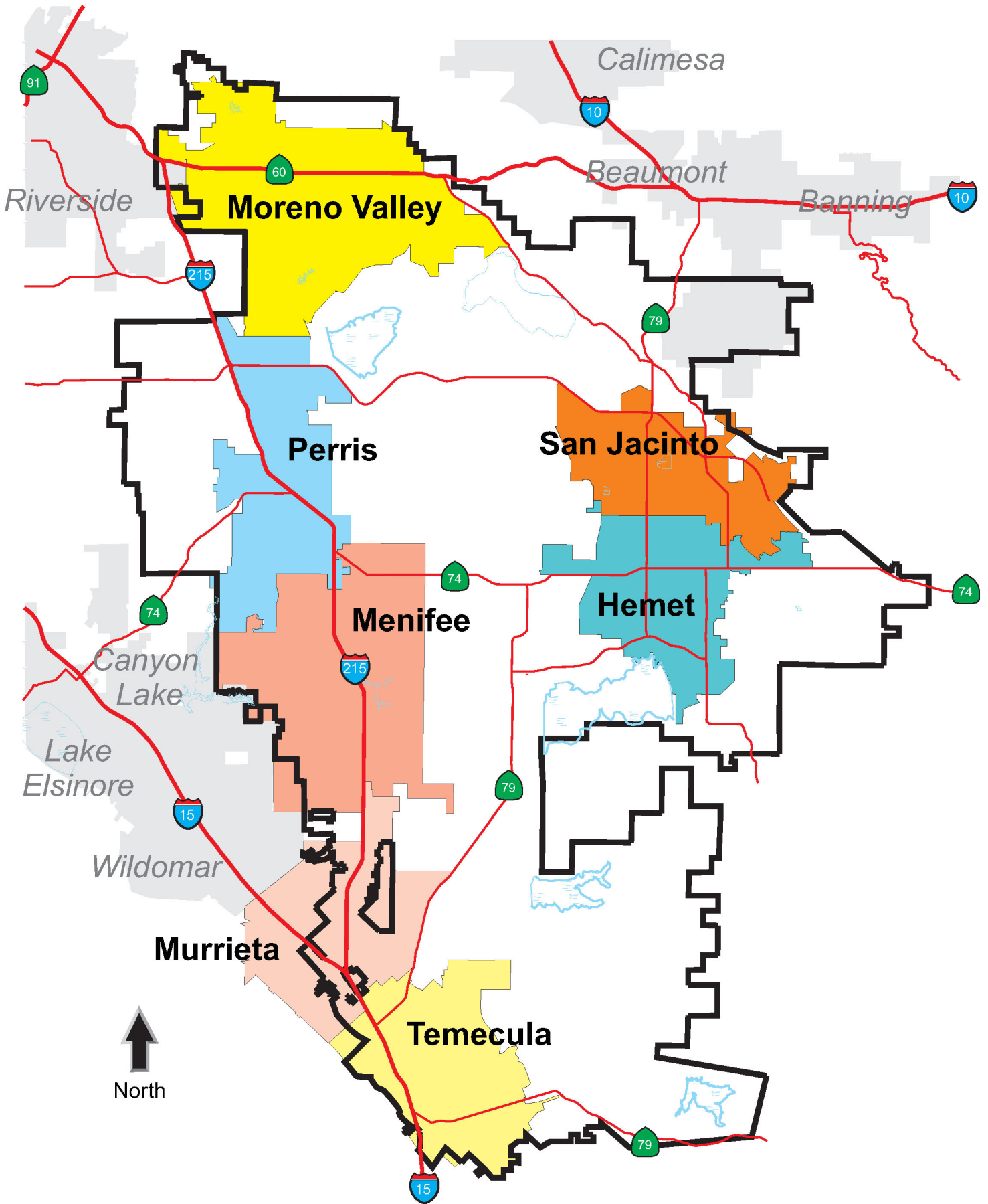
⁽¹⁾ Active water accounts as of June 30 of each Fiscal Year.

⁽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 2016 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 20 under the caption “PROJECTED OPERATING RESULTS.”





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 52% of the District's total water supply (including domestic and non-domestic) comes from local sources, including approximately 10% from potable groundwater, approximately 6% from groundwater that must undergo desalination treatment to be used as potable water and approximately 36% from recycled water. Groundwater sources are heavily dependent upon rainfall and other sources of recharge. The remaining 48% of the District's water supply (including approximately 76% of its potable water supply) comes through 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 2016, MWD supplied the District with approximately 58,429 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 Moreno Valley, Murrieta and Temecula and the unincorporated communities of Good Hope, Homeland, Lakeview, Nuevo, Mead Valley, Murrieta Hot Springs, Quail Valley, Romoland, Sun City, 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 \$6.94 to \$12.23 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, 2013 to January 1, 2016.

TABLE 5
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, 2013 Tier 1	\$ 847	\$ 593
January 1, 2013 Tier 2	997	743
January 1, 2014 Tier 1	890	593
January 1, 2014 Tier 2	1,032	735
January 1, 2015 Tier 1	923	582
January 1, 2015 Tier 2	1,055	714
January 1, 2016 Tier 1	942	594
January 1, 2016 Tier 2	1,076	728

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. Since July 1, 1990, 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. This will effectively accelerate over time the shift of total costs to water users, including the District. 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 85 water booster or pumping plants, 198 million gallons of surface storage capacity and approximately 2,465 miles of pipeline ranging from 4 to 60 inches in diameter.

Wells. Locally, the District maintains 16 active domestic production wells. The wells, which supplied 18% of the District's domestic water in Fiscal Year 2016, are listed by location, current status and Fiscal Year 2016 production in the following table.

TABLE 6
EASTERN MUNICIPAL WATER DISTRICT
Active Domestic District Wells

<i>Location</i>	<i>Status</i>	<i>Fiscal Year 2016 Production (in acre feet)</i>	<i>Current Pumping Capacity⁽¹⁾</i>	
			<i>gallons/minute</i>	<i>acre feet/day</i>
San Jacinto Basin – Cienega Area of Canyon Sub-Basin ⁽²⁾				
No. 17 Cienega Well	Active	0	1,549	6.8
No. 26 Cienega Well	Active	0	2,199	9.7
No. 34 Cienega Well	Active	0	1,302	5.8
San Jacinto Basin – Intake Area of Upper Pressure Sub-Basin ⁽³⁾				
No. 25 Fruitvale Well	Active	1,917	1,400	6.2
No. 33 Mountain Avenue Well	Active	464	902	4.0
No. 36 New Washington St	Active	612	1,149	5.1
No. 80 New 7th St Well	Active	328	575	2.5
San Jacinto Basin – Upper Pressure Sub-Basin				
No. 29 Quandt Well	Active	1,158	1,400	6.2
No. 90 Evans/Old Mtn Well	Active	2,628	1,800	8.0
No. 91 Ramona/Espl Well	Active	1,712	1,701	7.5
No. 92 Ramona/Hemet Well	Active	501	1,100	4.9
San Jacinto Basin – Hemet South Sub-Basin				
No. 35 Palm & Menlo Well	Active	370	911	4.0
San Jacinto Basin – Perris North Sub-Basin				
No. 55 Perris II Well	Active	1,098	750	3.3
No. 56 Perry Well	Active	1,552	1,041	4.6
No. 57 Follico Well	Active	1,011	826	3.7
No. 59 Indian Well ⁽⁴⁾	Active	<u>1,442</u>	<u>1,000</u>	<u>4.4</u>
Total Production ⁽⁵⁾		14,793	19,605	86.6

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

⁽²⁾ Groundwater extractions from this sub-basin were limited in Fiscal Year 2016 in order to retain sufficient groundwater therein to meet the District's obligations under the Settlement Act and the IRRP. See the caption "—Groundwater Supplies—Soboba Settlement Agreement."

⁽³⁾ Excludes Well Nos. 14 and 27 because such wells were removed from production on April 21, 2015 and April 4, 2016, respectively.

⁽⁴⁾ Through monitoring required by the federal Environmental Protection Agency's ("EPA") Unregulated Contaminant Monitoring rule, the District detected perfluorooctanoic acid and perfluorooctanesulfaonic acid in levels that exceed new EPA health advisory levels in Well No. 59. See the caption "—Groundwater Supplies—General." The District has voluntarily shut down Well No. 59 and is working with the United States Air Force (the designated responsible party) to mitigate physical and economic impacts of these contaminants until this source of groundwater can be restored or replaced.

⁽⁵⁾ Reflects actual Fiscal Year 2016 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 to 1,696 feet. Pumping levels for production range from 100 to 516 feet. The 16 active production wells have a combined production capability of 19,605 gallons per minute, which equates to approximately 86.6 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 water distribution system consists of approximately 2,465 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 70 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 78 active water storage facilities located throughout the District. These facilities provide approximately 198 million gallons of storage. The active reservoirs are ground level circular steel tanks; in addition, there are five small hydro-pneumatic booster tanks and three small 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 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 77 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 12 brackish (i.e. non-domestic) water wells pumping from the South Perris groundwater sub-basin. As described under the caption “—Groundwater Supplies,” 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 Hemet Water Filtration Plant.

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 48% of District’s water supply (including approximately 76% of its potable water supply) is imported from MWD. In Fiscal Year 2016, MWD supplied the District with approximately 58,429 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 1.54 million acre feet of water in storage as of January 1, 2016, compared to approximately 1.84 million acre feet, 2.95 million acre feet, 3.36 million acre feet and 3.00 million acre feet of water in storage as of January 1, 2015, January 1, 2014, January 1, 2013 and January 1, 2012, 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 BONDS TO PROVIDE MWD INFORMATION TO THE DISTRICT, THE TRUSTEE OR THE OWNERS OF THE 2016B 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 2016B BONDS UNDER RULE 15c2-12.

Drought Measures

State Orders. On January 17, 2014, the California Governor declared a drought state of emergency (the “**Declaration**”) with immediate effect. The Declaration includes the following orders, among others: (a) local urban water suppliers, including the District, are encouraged to implement their local water shortage contingency plans; the District’s plan is discussed under the caption “—District Response to Drought;” (b) local urban water suppliers, including the District, are encouraged to update their urban water management plans to prepare for extended drought conditions; (c) DWR and the SWRCB are directed to expedite the processing of water transfers; (d) the SWRCB is directed to put water rights holders on notice that they may be required to cease or reduce water diversions in the future; (e) the SWRCB is directed to consider modifying requirements for reservoir releases or diversion limitations; and (f) DWR is directed to take necessary actions to protect water quality and supply in the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (the “**Bay-Delta**”), including the installation of temporary barriers or temporary water supply connections, while minimizing impacts to aquatic species. In addition, on July 15, 2014, the SWRCB adopted emergency measures requiring water suppliers to implement mandatory Statewide water conservation actions.

On March 17, 2015, the SWRCB adopted additional emergency regulations limiting outdoor irrigation to two days per week, extending certain measures set forth in the July 15, 2014 action for an additional 270 days, prohibiting outdoor irrigation for 48 hours following rain and prohibiting restaurants from serving water to customers unless requested. It is anticipated that the District will comply with the new regulations through its SWRCB-approved qualifying rate structure and water shortage contingency plan (the “**WSCP**”), each as discussed under the caption “—District Response to Drought.”

On April 1, 2015, the California Governor issued an executive order extending the measures set forth in the Declaration and adopting the following additional orders, among others: the SWRCB is directed to impose restrictions to reduce potable urban water usage, including usage by commercial, industrial and institutional properties and golf courses, by 25% from 2013 amounts through February 28, 2016; portions of a water supplier’s service area with higher per capita use must achieve proportionally greater reductions than areas with lower per capita use.

On May 6, 2015, the SWRCB adopted regulations in response to the Governor’s executive order that require the District to effect a 28% reduction from 2013 water usage. On November 13, 2015, the Governor issued Executive Order B-36-15, which called for an extension of urban water use restrictions until October 31, 2016 should drought conditions persist through January 2016.

On February 2, 2016, the SWRCB extended its previous emergency regulations through October 2016 while making available credits and adjustments of up to 8% in urban water suppliers’ conservation mandates based upon climate, water-efficient growth and investments in drought-resilient supply sources. The District applied for and received an 8% adjustment to its conservation standard to account for climate, growth, and sustainable supplies. The adjusted target required the District to effect a 20% reduction from 2013 water usage.

After precipitation improved in California through the winter, on May 9, 2016 the Governor issued Executive Order B-37-16, which required the SWRCB to adjust its emergency regulations through the end of January 2017 to account for differing water supply conditions across California. It also directed the SWRCB and DWR to develop a long-term framework and requirements for increasing water efficiency, eliminating water waste, and strengthening local resilience. On May 18, 2016 the SWRCB adopted a revised regulation gives water agencies the ability to establish their own conservation standards based on a “stress test” of supply reliability. By June 22, 2016, water agencies were required to submit self-certifications to the SWRCB demonstrating that they have sufficient supplies to withstand three additional years of severe drought. Any identified percentage gap between supplies and demands would become the water agency’s updated mandatory conservation target.

As a result of significant investments in water supply reliability as described herein, the District demonstrated that it has more than sufficient supplies to meet its projected demands, even if California endures three more years of drought. Consequently, the District’s mandatory conservation target was eliminated, retroactive to June 1, 2016. Notwithstanding the elimination of mandatory State-imposed conservation orders, the District continues to implement Stage 3C of its WSCP as described under the caption “—District Response to Drought” and is asking its customers for a voluntary 10% water use reduction relative to use in 2013. In July 2016, the District’s customers collectively achieved a 14% reduction relative to 2013 potable water use.

District Response to Drought. 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 25% reductions in water use 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). In addition, penalties are levied for violations of the Water Conservation provisions of the District’s Administrative Code. 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 Year 2016, the District implemented various stages of the WSCP, ranging from Stage 4A to Stage 4C. At stages 3C and above, water use in excess of the allotted budget amounts are charged at the highest cost per hundred cubic feet of water.

The District is currently implementing the Stage 3C of its WSCP in response to the Declaration and the SWRCB’s emergency measures. Stage 3C eliminates Tier 3 budgets. The District also continues to promote reductions in outdoor watering and the elimination of water waste. The District also undertakes written and telephonic outreach to customers whose water usage exceeds their tier budgets or otherwise has not been reduced below 2013 amounts. Although the District is no longer under mandatory conservation standards (as described above under the caption “—State Orders”), District customers continue to reduce water usage by nearly a cumulative 20% compared to 2013 usage.

The District estimates that the implementation of Stage 3C will not have a significant impact on most customers, but will send a strong message to eliminate water waste. The District believes that the implementation of Stage 3C will enable it to reduce water usage by up to 20% from 2013 usage.

In some cases, actions taken pursuant to the Declaration could result in additional water being made available to the District, while in other cases, actions taken pursuant to the Declaration could reduce water supplies. The District believes that implementation of Stage 3C of the WSCP is likely to result in reduced revenues in Fiscal Year 2017 as users conserve water. 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. The District has retained a consultant to undertake a study of the District's rates in order to determine whether a revised rate structure would benefit the District or its customers.

Although the District believes that its groundwater and imported water supplies are stable or improving given increased attention to manage groundwater (as discussed under the caption “—Groundwater Supplies”) and store surface water, State regulations to date have not been revised to reflect such facts. The projected operating results set forth under the caption “PROJECTED OPERATING RESULTS” reflect reduced water sales as a result of the District's compliance with State of California mandates relating to the drought. The District does not believe that the implementation of Stage 3C of the WSCP will have a material adverse effect on its ability to generate sufficient Net Revenues to pay the principal of and interest on the 2016B Bonds when due. See the Official Statement under the caption “SECURITY FOR THE 2016B 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.”

Groundwater Supplies

General. The District produces approximately 12% of its total domestic water supply from 13 wells located on the east side of the San Jacinto groundwater basin (the “**San Jacinto Basin**”) and approximately 6% of its total domestic water supply from 3 wells located on the west side of the San Jacinto Basin. To maintain its production capacity, the District is also in the process of drilling an additional well (Well 38) to replace a well (Well 28) that was recently taken out of production. 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 that must be desalinated prior to use.

In May 2016, the EPA amended its Provisional Health Advisory for two compounds, perfluorooctanoic acid and perfluorooctanesulfaonic acid, collectively referred to as “**PFAS**.” Through the monitoring that is required under the EPA's Unregulated Contaminant Monitoring Rule, the District detected PFAS in Well 59 above the new EPA health advisory levels. Local regulators have advised the District to handle the new advisory levels as if they were regulatory limits. The District therefore shut down Well 59, which had levels of PFAS that exceeded the new advisory limits. See the caption “—District Water Facilities.” The District has been able to purchase additional imported water to replace the 1.5 mgd that had previously been drawn from Well 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 District is working with the United States Air Force to recover the physical and economic impact from the loss of Well 59.

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.

The adjudicated portion of the San Jacinto Basin is estimated to be in a state of overdraft in the approximate amount of 10,000 acre feet per year; such amount will be refined through further studies to be carried out by the Watermaster. 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.

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. For the period from May 2016 through April 2017, the District’s ABPR is 8,461 acre feet, which will be reduced to 7,303 acre feet beginning in May 2018.

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 2,400 acre feet per year of groundwater to the District.

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 (\$30 per acre foot for calendar year 2016) on groundwater pumped up to the parties’ respective base production 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 and to maintain facilities for such 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 District is developing additional groundwater sources within the cities of Moreno Valley (in the Perris North sub-basin) and Perris (in the Perris North and Perris South sub-basins). In the Perris North sub-basin, water levels have been steadily increasing since the late 1990s as agricultural uses give way to development, resulting in less groundwater production and large amounts of water being supplied from the Perris Reservoir.

Brackish Groundwater Desalination. The District has constructed two desalters with a combined annual capacity of 9,600 acre feet. See the caption “—District Water Facilities—Menifee/Perris Desalters.” A third desalter is in the final design phase and will expand the desalination program capacity to 15,000 acre feet per year. The District received a \$1,000,000 grant to provide partial funding for a new well to feed the desalination system, construction of which well has now commenced. 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 \$1,000,000 grant from the State of California for partial funding of one additional desalter well. The United States Army Corps of Engineers has budgeted \$2,500,000, \$3,600,000 and \$750,000 in federal fiscal years 2014-15, 2015-16 and 2016-17, respectively, for a total of \$6,850,000, to fund two of the aforementioned desalter wells.

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 requires 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 located within the Canyon Sub-basin. The District participates with LHMWD, the cities of Hemet and San Jacinto, and local groundwater producers to enact 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 20 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 11 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 2016, the District produced approximately 44,901 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 the U.S. Army Corps of Engineers 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 2008 and 2009, the District completed an initial feasibility study and strategic plan identifying Indirect Potable Reuse

(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 also participating in a Demineralization and Non-Potable Water Conversion Feasibility Study with Rancho California Water District to investigate the feasibility of demineralization of recycled water and conversion of avocado groves and other crops to this non-potable water source.

Sustainable Groundwater Management Act. On September 16, 2014, the State 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 by January 31, 2015. By January 31, 2017, local groundwater producers must 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 groundwater sustainability plan for DWR’s approval by January 31, 2020. Alternatively, groundwater producers can 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. Such alternative plan must be submitted by January 31, 2017 and updated every five years thereafter.

GSA’s 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 groundwater sustainability plan. In addition, GSA’s 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. GSA’s 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. Groundwater sustainability plans 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. Certain portions of the San Jacinto Basin (primarily on the east side thereof) have been adjudicated pursuant to the Judgment (as discussed the caption “—The Watermaster”), and as such are specifically exempt from SGMA based on a legal interpretation provided by the SWRCB. The District is no longer pursuing the formation of a GSA for the area managed by the Watermaster.

The District is pursuing an appointment as the GSA for the unadjudicated west side of the San Jacinto Basin and believes that its effort has the support of other interested parties. 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 managing such areas as part of the AB 3030 Groundwater Management Plan discussed under the caption “—Groundwater Management Activities,” as permitted by the SGMA. The District believes that any modifications to the AB 3030 Groundwater Management to meet SGMA requirements will not have a significant fiscal impact, nor are they expected to have a material impact on the District’s groundwater supply from such areas. All of the District’s groundwater wells are currently metered, as required by the SGMA.

No assurance can be provided as to whether or when the District will ultimately become the GSA for any portion of the San Jacinto Basin. The District does not currently expect the enactment of the SGMA or the appointment of the District or another party as a GSA with respect thereto to have a material adverse effect on the District’s ability to generate sufficient Net Revenues to pay the 2016B Bonds.

Other Programs. The District is currently exploring the development of a water bank with a storage capacity of up to 128,000 acre feet. The project, known as the San Jacinto Valley Enhanced Recharge and Recovery Program (the “**SJV ERRP**”), calls for importing untreated water from MWD and water purchased from other agencies. Such water, together with captured stormwater runoff, 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.

As currently proposed, some of the recharged water will be for conjunctive use in the same or the following 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 reduce treatment costs for such water. Under the SJV ERRP as currently envisioned, up to three wells would be constructed by 2020, with up to eight wells constructed later, in order to extract banked water. The SJV ERRP currently contemplates that the initial three wells would each have an annual average capacity of approximately 1,350 gallons per minute, or approximately 2,200 acre feet per year. Recharge facilities with a capacity of up to 67,000 acre feet per year and monitoring and water conveyance facilities would also be constructed. Currently, the cost for the first phase of the SJV ERRP is estimated to be approximately \$22,280,000.

The District has been awarded Proposition 84 grant funding for the first phase of the SJV ERRP (referred to as the Santa Ana River Conservation and Conjunctive Use Program, or “SARCCUP”). The District has not yet determined other financing sources for the SJV ERRP. An environmental impact report is currently being prepared for the SJV ERRP. See the caption “THE CAPITAL IMPROVEMENT PLAN—Environmental Considerations.” An environmental impact report for SARCCUP is scheduled to be completed by June 2017. The SJV ERRP will be constructed within the next five years, in accordance with the grant funding schedule. The District will contribute \$9 million toward the program, with the remaining \$13.28 million coming from grant funding.

Quality of District Water

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 SWRCB’s Division of Drinking Water. Because of the current drought conditions discussed under the caption “—Drought Measures,” the District currently receives a higher percentage of Colorado River water from its MWD supplies. Such water has higher salinity levels than other MWD sources such as the State Water Project.

The District has more than 40 sources of water. It is not uncommon for raw groundwater or surface water to have measurable contaminants. Groundwater in the San Jacinto Basin is of excellent quality and the District’s domestic wells in such basin meet federal and State of California regulations. The other District wells in the Hemet and Perris groundwater sub-basins produce water of good to excellent quality and if needed, water from such wells is treated either by blending or reverse osmosis to comply with all federal and State of California standards. Two surface water treatment plants use ultrafiltration to treat raw imported water in order to comply with regulations.

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 7
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>
2012	83,944	3,610	2,708	46,937	137,199
2013	88,942	3,875	3,241	46,502	142,560
2014	88,422	7,218 ⁽¹⁾	5,845 ⁽²⁾	47,707	149,192
2015 ⁽³⁾	81,407	3,306	4,647	46,366	135,725
2016 ⁽³⁾	68,302	2,807	6,861	44,901	122,871

⁽¹⁾ Increase from Fiscal Year 2013 reflects a large purchase (3,270 acre feet) of wholesale water in Fiscal Year 2014, which was sold for agricultural use to LHMWD. LHMWD did not purchase wholesale water in Fiscal Years 2011 through 2013.

⁽²⁾ Increase from Fiscal Year 2013 reflects large purchases by agricultural customers during period of warm weather in the second half of 2013.

⁽³⁾ Decreases since Fiscal Year 2014 reflect effect of Statewide drought and mandatory State conservation orders with respect thereto. See the caption “—Drought Measures.” See Table 18 under the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues” for historic water sales revenue information for Fiscal Years 2015 and 2016.

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 8
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>
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

⁽¹⁾ Differences from the “Domestic Retail” water production figures set forth in Table 7 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 9
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>
2012	79,752	3,580	2,116	34,679	120,127
2013	82,591	3,578	2,641	34,889	123,699
2014	84,650	4,294 ⁽²⁾	5,584	37,467	131,995
2015 ⁽³⁾	76,832	3,082	4,446	35,617	119,977
2016 ⁽³⁾	63,673	2,641	6,403	32,037	104,754

⁽¹⁾ Differences from the “Recycled Water” production figures set forth in Table 7 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. See the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Regulatory Matters.” The District expects to undertake capital improvements that will enhance its ability to store recycled water during periods of heavy precipitation and sell it during periods of high demand. See the caption “THE CAPITAL IMPROVEMENT PLAN—Financing of Capital Improvement Plan.”

⁽²⁾ Excludes water delivered to LHMWD for agricultural use, as described in Footnote (1) to Table 7.

⁽³⁾ Decreases since Fiscal Year 2014 reflect effect of Statewide drought and mandatory State conservation orders with respect thereto. See the caption “—Drought Measures.” See Table 18 under the caption “HISTORICAL FINANCIAL OPERATIONS—Operating Revenues” for historic water sales revenue information for Fiscal Years 2015 and 2016.

Source: Eastern Municipal Water District.

Water Sales and Deliveries

The District’s ten largest customers (including both retail and wholesale customers) accounted for approximately 8.78% of the District’s total unaudited water sales revenues in Fiscal Year 2016. These figures do not include recycled water users or agricultural customers.

For Fiscal Year 2016, the District had 146,225 domestic active billing accounts and 127 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 2014, 2015 and 2016, wholesale water sales totaled approximately 4,294 acre feet, 3,082 acre feet and 2,641 acre feet, respectively.

The following table sets forth the District’s ten largest domestic water customers by sales in acre feet as of June 30, 2016.

TABLE 10
EASTERN MUNICIPAL WATER DISTRICT
Largest Domestic Water Customers as of June 30, 2016⁽¹⁾

<i>Customer Name</i>	<i>Sales in Acre Feet</i>	<i>Annual Revenues⁽⁴⁾</i>
1. City of Perris ⁽²⁾	1,569	\$ 1,911,984
2. Moreno Valley School District	847	1,100,593
3. Western Municipal Water District ⁽²⁾⁽³⁾	979	1,067,481
4. Valley-Wide Recreation Park	672	1,049,422
5. City of Moreno Valley	633	1,001,263
6. Riverside County Economic Development Agency	534	735,423
7. Val Verde Unified School District	524	762,546
8. Stonegate at Towngate	520	765,172
9. City of Murrieta	414	589,967
10. Country Meadows II Association	<u>370</u>	<u>443,162</u>
Total	7,062	\$ 9,427,014
Total domestic water sales	66,314	\$ 107,319,705
Top 10 customers as a percentage of total	10.65%	8.78%

⁽¹⁾ Data includes 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.

⁽⁴⁾ Unaudited actual Fiscal Year 2016 amounts.

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 (“**RWRF**”), for which costs and methods of treatment vary. The facilities are capable of treating 69 mgd of wastewater and serve approximately 803,973 people. The facilities are linked to a network of nearly 1,799 miles of pipeline and 48 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 RWRF are provided below. See the caption “THE CAPITAL IMPROVEMENT PLAN” for a discussion of the District’s Capital Improvement Plan.

TABLE 11
EASTERN MUNICIPAL WATER DISTRICT
Regional Water Reclamation Facilities

<i>RWRF</i>	<i>Reliable Capacity (mgd)</i>	<i>Fiscal Year 2016 Daily Average Flow Treated (mgd)</i>	<i>Daily Average Flow as Percentage of Capacity</i>
Moreno Valley ⁽¹⁾	15.0	10.5	70%
Perris Valley ⁽²⁾	22.0	12.1	55
San Jacinto Valley ⁽³⁾	14.0	6.6 ⁽⁵⁾	47
Temecula Valley ⁽⁴⁾	<u>18.0</u>	<u>13.2</u>	<u>73</u>
Total	69.0	42.4	61

⁽¹⁾ Expansion to 16 mgd was completed in 2013. See the caption “THE DISTRICT—Debt Structure of the District—Parity State Loans.”

⁽²⁾ Expansion to 25 mgd was completed in 2014. Perris Plant 1, which provides approximately 3 mgd of capacity, is currently out of service.

⁽³⁾ Expansion to 14 mgd was completed in November 2015. See the caption “THE DISTRICT—Debt Structure of the District—Parity State Loans.”

⁽⁴⁾ Expansion to 18 mgd was completed in 2014. See the caption “THE DISTRICT—Debt Structure of the District—Parity State Loans.” The District is currently applying for an additional State Loan that is expected to be payable from Net Revenues on a parity with the 2016B Bonds. If approved, such additional State Loan will finance the further expansion of the Temecula Valley RWRF to 23 mgd. See the caption “THE DISTRICT—Debt Structure of the District—Subordinate Obligations.”

⁽⁵⁾ Amount excludes 2.8 mgd diverted to Perris Valley RWRF and 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 which 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 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 following table sets forth the District’s ten largest wastewater customers by revenues as of June 30, 2016.

TABLE 12
EASTERN MUNICIPAL WATER DISTRICT
Largest Sewer Customers as of June 30, 2016

<i>Customer Name</i>	<i>Annual Revenues</i> ⁽¹⁾
1. Pechanga Resort and Casino	\$ 689,337
2. Stonegate at Towngate	494,129
3. Murrieta Valley Unified School District	244,057
4. Val Verde School District	195,970
5. Hemet Unified School District	157,920
6. Rancho Bella Vista Homeowners Association	153,022
7. Waterstone at Murrieta Apartments	150,156
8. Palm Court Apartments	146,996
9. Westwind Enterprises	146,801
10. Western States Mobilehome Park	<u>116,056</u>
Total	\$ 2,494,443
Total sewer revenue	\$ 87,184,856
Top 10 customers as a percentage of total	2.86%

⁽¹⁾ Unaudited actual Fiscal Year 2016 amounts.
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 42 mgd of effluent at its four active RWRFs. The amount of effluent is expected to grow to 44 mgd by 2017. In Fiscal Year 2016, 100% of the total recycled water produced that was available for sale (approximately 44,901 acre feet) was sold to customers. Unsold recycled water, if any, 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. Recycled water customers include 72 active agricultural sites, 5 golf courses, 248 landscape irrigation sites, 4 recreational clubs, 1 wildlife area, 1 power generation facility, 6 wholesale connections and 12 temporary construction meters. In Fiscal Year 2016, sales of recycled water in the District totaled \$6,648,809 (reflecting unaudited actual amounts).

Recycled Water Facilities and Application of Recycled Water

In addition to the four RWRFs, the District’s recycled water facilities include approximately 217 miles of transmission and distribution pipelines, 23 pumping facilities and approximately 6,448 acre feet of storage and percolation ponds. All four of the District’s RWRFs provide tertiary recycled water. See the caption “THE DISTRICT—Debt Structure of the District—Parity State Loans” for a discussion of the completed expansion and possible further expansion of the tertiary treatment capacity of the Temecula Valley RWRf.

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, sod farms, 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 as well as source water for one cooling tower. 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**") and, accordingly, is regulated by the San Diego RWQCB; however, a portion of the effluent from the Temecula Valley RWRf that is pumped to and used in the San Jacinto River basin is regulated by the Santa Ana RWQCB.

On September 13, 2000, the San Diego RWQCB issued Order No. R9-2000-0165 (the "**San Diego RWQCB Permit**") authorizing the District to discharge recycled water within the Santa Margarita River basin. Revision of the San Diego RWQCB Permit will be required if the District expands the Temecula Valley RWRf capacity above 18 mgd. Under the San Diego RWQCB permit, recycled water produced at the Temecula Valley RWRf can be discharged or reused within the Santa Margarita River watershed. The San Diego RWQCB Permit does not have an expiration date.

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.

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 San Diego RWQCB Permit and the Santa Ana RWQCB Permit.

Approximately 44,961 wet tons of biosolids were produced from the District's RWRfs in 2015 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 for landfill disposal or land application.

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 this 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 has developed 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 is developing an SNMP for Upper Temescal Valley Watershed together with Elsinore Valley Municipal Water District to support the NPDES Permit described above; such SNMP is expected to be completed by the end of 2016.

THE CAPITAL IMPROVEMENT PLAN

Background

The District’s 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 recently embarked upon various planning studies required to complete 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. The District is currently in the process of reviewing and finalizing its Facility Master Plan and Capital Plan using updated growth projections that take into account conservation policy and current land use data. These planning efforts are estimated to be completed in the fall of 2016. The Capital Plan and Facility Master Plans become the documents from which the District develops its CIP. The CIP spans five years and identifies proposed projects from the Facility Master Plans that are currently required, adds projects where necessary and defers projects when possible. 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 \$88 million in Fiscal Year 2017 on water, sewer, recycled water and general capital improvement projects. The District anticipates entering into additional debt to finance a portion of such projects, with the remainder paid from District reserves, all as described in Table 14 below. The five-year CIP for the current and next four Fiscal Years is estimated to total approximately \$398 million, as summarized in the table below. All estimates include planning, design, construction, engineering, administration and right-of-way acquisition costs.

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

<i>Fiscal Year</i>	<i>Water</i>	<i>Sewer</i>	<i>Recycled/Other</i>	<i>Annual Total</i>
2017	\$ 43	\$ 32	\$13	\$ 88
2018	43	45	13	101
2019	47	32	3	82
2020	44	11	4	59
2021	<u>49</u>	<u>18</u>	<u>1</u>	<u>68</u>
Total	\$222	\$142	\$34	\$398

⁽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 State Loans which have been approved and anticipated additional State Loans and grants from public agencies.

TABLE 14
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>Approved and Additional State Loans and Subordinate or Parity Obligations⁽³⁾</i>	<i>Annual Total</i>
2017	\$ 0	\$ 88	\$ 88
2018	0	101	101
2019	41	41	82
2020	59	0	59
2021	<u>68</u>	<u>0</u>	<u>68</u>
	\$169	\$230	\$398

⁽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 approved and additional anticipated State Loans in each of Fiscal Years 2016 through 2019. See the caption “THE DISTRICT—Debt Structure of the District.”

Source: Eastern Municipal Water District.

Environmental Considerations

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**”).

Under CEQA, a project which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process, which begins with an Initial Study that determines the level of environmental review based on the expected effects of the project on the environment. The project may require the preparation of an Environmental Impact Report (“**EIR**”), which is the highest level of review. The EIR reflects not only an independent technical analysis of the project’s potential impacts, but also the comments of responsible agencies with jurisdiction over the project and the comments of interested members of the public.

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. If the lead agency determines that the project itself will not have a significant effect on the environment, it may adopt a written negative declaration or mitigated negative declaration, reflecting a lower level of environmental review resulting from less than significant effects through mitigation. Once the agency approves or determines to carry out a project, either following the EIR process or after adopting a negative declaration or mitigated negative declaration, it must file notice of such determination with the clerk of the county in which the project is located. 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 such notice. 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.

General. Water and sewer charges were ruled 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 relating to the 2016B Bonds, 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 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 Official Statement under the caption "SECURITY FOR THE 2016B 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 increases in water commodity rates and daily service charges averaging approximately 2.0% as of January 1, 2017, and increases in sewer rates averaging approximately 1.5% as of July 1, 2016. The Board adopted rate increases on June 15, 2016. In addition, the projected operating results set forth under the caption "PROJECTED OPERATING RESULTS" assume increases in water commodity rates and daily service charges averaging approximately 4.5% per annum, and increases in sewer rates averaging approximately 5.0% per annum, after Fiscal Year 2017. All of such rate increases are subject to 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. The rate structure is customized for each household and is based on four tiers, with the first two tiers representing the water budget. The tiers are as follows: Tier 1 – Indoor Use; Tier 2 – Outdoor Use; Tier 3 – Excessive Use; and Tier 4 – Wasteful Use. Indoor use rates are based on the number of people in a household at an assumed usage of 60 gallons per person per day. There are also variances for animals, medical needs and filling pools. The outdoor use is based on landscaped area. The basic calculation for outdoor use takes into account the weather each day and the amount of water that would be needed to water the landscaped area if it was turf. Since 2009, the average water consumption per household has dropped as a result of the tiered rate structure. The 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 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 described in Table 17 below to cover a portion of the water system's fixed operating costs. The Board also adopted an additional service charge (the "**Water Reliability Capital Charge**") on June 18, 2014. The Water Reliability Capital Charge is \$2.25 per month per household as of January 1, 2016. An additional incremental charge of \$1.00 was approved by the Board in June 2016 and will go into effect on January 1, 2017. The Water Reliability Capital Charge is intended to collect funds to pay for water reliability projects and facilities either 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 a parity with the 2016B 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 and adopted future water rates are as follows:

TABLE 15
EASTERN MUNICIPAL WATER DISTRICT
Current Water Rates

	<i>Current Rates Effective January 1, 2016</i>	<i>Adopted Rates Effective January 1, 2017</i>
Tier 1 (Indoor Use) ⁽¹⁾	\$ 1.861	\$ 1.898
Tier 2 (Outdoor Use) ⁽¹⁾	3.405	3.473
Tier 3 (Excessive Use) ⁽¹⁾⁽²⁾	6.102	6.224
Tier 4 (Wasteful Use) ⁽¹⁾⁽²⁾	11.164	11.387
Fixed Charges	0.455	0.496

⁽¹⁾ Tiered rates are charged per 100 cubic feet.

⁽²⁾ There is currently no water usage budgeted for Tier 3 given the District’s implementation of its WSCP. See the caption “WATER RESOURCES, FACILITIES AND USAGE—Drought Measures—District Response to Drought.”

Source: Eastern Municipal Water District.

Sewer Rates and Charges. Sewer rates set forth in the table below were approved by the Board on June 15, 2016 and were effective July 1, 2016. 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 \$0.806 to \$1.100 per day, subject to the application of the sewer block factors outlined below.

TABLE 16
EASTERN MUNICIPAL WATER DISTRICT
Sewer Rate Structure

<i>Block Number</i>	<i>Block Factor</i>	<i>Number of People in Household</i>
1	0.75	1 – 2 people
2	1.00	3 – 4 people
3	1.25	5 – 6 people
4	1.75	7 people or more

Source: Eastern Municipal Water District.

The sewer service billing is calculated using the block factor multiplied by the sewer rate. This new sewer service billing methodology enables the District to reasonably charge for sewer service based on household service demands from the sewer system.

In addition to the above-described sewer rates based upon usage, the District imposes a daily service charge described in Table 17 below to cover a portion of the sewer system’s fixed operating costs. The Board adopted a \$0.75 increase to the Sewer Capital Charge on June 15, 2016, raising such charge to \$2.25 per month per household as of July 1, 2016. The Sewer Capital Charge is intended to collect funds to pay for sewer capital projects and facilities either 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 a parity with the 2016B 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 vary throughout the District, the following water and sewer rates are representative of those in effect within the District:

**TABLE 17
EASTERN MUNICIPAL WATER DISTRICT
Water and Sewer Rates**

<i>Service Area</i>	<i>7 Units⁽¹⁾⁽²⁾ Tier 1</i>	<i>Water (Effective January 1, 2016)</i>			<i>Sewer (Effective July 1, 2016)</i>	
		<i>11 Units⁽²⁾ Tier 2</i>	<i>Fixed Charges⁽³⁾</i>	<i>Average Monthly Rate⁽⁴⁾</i>	<i>Fixed Charges</i>	<i>Average Monthly Rate⁽⁵⁾</i>
Perris Valley	\$1.861	\$3.405	\$0.455	\$64.13	\$1.100	\$33.00
Menifee	1.861	3.405	0.455	64.13	0.835	25.05
Fruitvale	1.058	1.937	0.455	42.36	0.807	24.21
Diamond Valley	1.861	3.405	0.455	64.13	0.807	24.21
Moreno Valley	1.861	3.405	0.455	64.13	0.829	24.87
Temecula Valley	1.861	3.405	0.455	64.13	0.957	28.71

⁽¹⁾ See Table 15 under the caption “—Water Rates and Charges” for a schedule of water rates that will go into effect on January 1, 2017.

⁽²⁾ A unit is a measure of water equal to 100 cubic feet.

⁽³⁾ Water Fixed Charges include a \$0.381 daily charge and a \$0.0740 fixed charge for water supply and reliability capital projects.

⁽⁴⁾ For example, a water billing for 1,800 cubic feet (18 units) of water for a period of 30 days in the Perris Valley would be calculated as follows: (7 units X \$1.861 per Tier 1 unit) + (11 units X \$3.405 per Tier 2 unit) + (30 days X \$0.455 per day) = \$64.13.

⁽⁵⁾ For example, a sewer billing for 30 days of sewer service in the Perris Valley would be calculated as follows: 30 days X \$1.100 per day = \$33.00.

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 18
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>
2012	\$104,741,242	\$65,983,462	\$5,135,186	\$175,859,890
2013	112,456,804	68,957,128	5,676,043	187,089,975
2014	122,724,175	73,100,086	6,125,420	201,949,681
2015	117,295,152	77,120,505	6,392,763	200,808,420
2016 ⁽¹⁾	112,457,424	84,134,292	9,699,373	206,291,089

⁽¹⁾ Unaudited actual Fiscal Year 2016 amounts.

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 \$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 6, 2016 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, 2016 are \$4,883 for water and \$8,158 for sewer. Increases of approximately 3.4% have been adopted by the Board and will go into effect on January 1, 2017.

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 receiving 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 tax rate levied to service outstanding general obligation bonds of the special improvement districts varies among the special

improvement districts within the District. The District received \$32,271,305 in property tax revenue from its share of the Riverside County 1% tax levy in Fiscal Year 2016.

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 2016 was approximately \$61.3 billion, which was an increase of approximately 14.6% from the previous year. The District currently levies taxes only to service bonds of its special improvement districts. The proceeds of such taxes do not constitute Water and Sewer Revenues and are neither pledged to nor available to pay debt service on the 2016B Bonds.

Although Riverside County has not formally 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, under a longstanding Riverside County policy, 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 this policy by Riverside County, Riverside County apportions 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.

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 availability of revenues from tax bases to such entities may be affected by the establishment of redevelopment

agencies which, under certain circumstances, may be entitled to such revenues resulting from the upgrading of certain property values.

The District normally receives approximately 12 – 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. In recent years the allocation of Proposition 13 property taxes to local agencies has been revised such that property tax revenue has been diverted away from special districts, such as the District, to school districts. Prior legislation diverted approximately \$12.6 million of property tax revenues from the District in 2005 and diverted the same amount in 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 under the Parity 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 1A. On November 2, 2004, California voters approved Proposition 1A, which amended the California Constitution to significantly reduce the State of California’s authority over major local government revenue sources. Under Proposition 1A, the State of California may not: (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes; (ii) shift property taxes from local governments to schools or community colleges; (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature; or (iv) decrease Vehicle License Fees revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2009, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State; and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses of the State Legislature. Under such a shift, the State of California must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State of California to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the California Constitution to require the State of California to suspend certain California laws creating mandates in any year that the State of California does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

The Amended 2009-10 Budget Act, signed into law on July 28, 2009 by the Governor, provided for the borrowing of 8% of property taxes from local jurisdictions, including the District, under Proposition 1A. Pursuant to this act, the State borrowed approximately \$2.3 million of the District’s 1% property tax revenues for Fiscal Year 2010. Under Proposition 1A, the State was required to repay the property taxes with a 2% rate of interest within three years. The District participated in the State’s financing program to make the shifted amounts available to local governments in 2009 through California Statewide Communities Development Authority and received \$2.3 million in connection with such financing.

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 pursuant to Proposition 1A in future Fiscal Years 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 that it will prescribe rates and charges that are sufficient to provide for payment of the principal of and interest on the 2016B Bonds and other Subordinate Obligations in each year. See the Official Statement under the caption “SECURITY FOR THE 2016B 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 the 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. However, there can be no assurance of the availability of particular remedies adequate to protect the Beneficial Owners of the 2016B Bonds. Remedies available to Beneficial Owners of the 2016B 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 Indenture 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 delivered with respect to the Indenture, including the opinion of Bond Counsel (the form of which is attached as Appendix D), were 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 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 Elsinore Valley 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 principal of and interest on the 2016B 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 was specific to the facts of the case, including 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 currently 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 XIID. 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.

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 makes no 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 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 pension system 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 at an actuarially determined rate applied to annual covered payroll. The District’s contribution rates for Fiscal Years 2015 and 2016 were 16.136% and 17.812%, respectively. In the CalPERS Actuarial Valuation report dated October 2015, reported as of June 30, 2014, CalPERS provided an annual contribution rate for Fiscal Year 2017 of 19.163%.

For Fiscal Years 2015 and 2016, the District elected to make its annual actuarially-determined employer contributions in a lump sum pre-payment option to CalPERS in the sum of \$8,160,464 and \$8,782,080, respectively.

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 makes a portion of the Employee Contributions on behalf of employees (the “**EPMC**”).

The EPMC for employees in the first pension tier is being reduced over the three-year term of the MOU (as discussed under the caption “THE DISTRICT—Employee Relations”); 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), is paying 5.5% of the 8% Employee Contribution (or 68.75% of the total Employee Contribution) in the second year (generally Fiscal Year 2015) and will pay 4% of the 8% Employee Contribution (or 50% of the total Employee Contribution) in the third year (generally Fiscal Year 2016). Under the new MOU (as discussed under the caption “THE DISTRICT—Employee Relations”), employees in the first tier will pay 5%, 6.5% and 8.0% Employee Contributions as of January 1, 2017, 2018 and 2019, respectively. As of January 1, 2019, employees in the first tier will thereby pay the full statutory employee contribution.

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). Under the new MOU (as discussed under the caption “THE DISTRICT—Employee Relations”), employees in the second tier will pay 5%, 6% and 7% Employee Contributions as of January 1, 2017, 2018 and 2019, respectively. As of January 1, 2019, employees in the first tier will thereby pay the full statutory employee contribution.

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

In June 2012, the Governmental Accounting Standards Board (“**GASB**”) approved new standards (GASB Statement No. 68 or “**GASB 68**”) with respect to pension accounting and financial reporting for state and local governments and pension plans. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (i) the inclusion of unfunded pension liabilities on the government’s balance sheet (previously, such unfunded liabilities were typically included as notes to the government’s financial statements); (ii) more components of full pension costs will be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates will be required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities will be required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. The reporting requirements for pension plans for government employers took effect in Fiscal Year 2015. Based upon the adoption of GASB 68, beginning with the Fiscal Year 2015 actuarial valuation, the amount formerly identified as the Annual Required Contribution (now the Actuarially Determined Contribution) and the annual reported pension expense will be different. GASB 68 is a change in accounting reporting standards, but it does not change the District’s CalPERS plan funding obligations. See Notes 1 and 6 in Appendix B for further information with respect to GASB 68.

The following table summarizes the District’s pension costs for the last five Fiscal Years:

<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>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation/Asset</i>
2012	\$7,462,257	\$3,489,805	\$ 543,612	\$10,952,062	100%	\$ -
2013	7,005,690	3,230,477	555,914	10,236,167	100	-
2014	7,695,750	3,043,506	772,559	10,739,256	100	-
2015	8,160,464	2,626,406	1,321,597	12,108,467	100	-
2016	8,782,080	1,942,151	2,070,962	12,795,193	100	-

(A) Employer’s share only.

(B) Portion of employee’s share that is paid by the District (EPMC).

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

Source: Eastern Municipal Water District.

For additional information relating to the District's CalPERS plan, see Notes 1 and 6 in Appendix B.

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

Other provisions reduce 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. If AB 340 is implemented fully, CalPERS estimates 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.

Provisions in AB 340 will not likely have a material effect on District's contributions in the short term. However, additional employee contributions, limits on pensionable compensation and higher retirement ages for new members will reduce the District's unfunded actuarial accrued liability and potentially reduce District contribution levels in the long term.

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 compensation) to a special trust fund (the "**401(a) Plan**") for each of its employees to provide additional retirement benefits. 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. Total contributions to the 401(a) Plan for Fiscal Years 2016, 2015 and 2014 were \$797,121, \$781,765 and \$831,743, respectively.

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 1.0% and 1.5% of annual base salary for calendar years 2015 and 2016, respectively. In Fiscal Years 2014, 2015 and 2016, employees voluntarily deferred \$2,313,609, \$2,238,902 and \$3,182,946, respectively, into the 457 Deferred Contribution Plan and the District provided matching funding of \$96,997, \$378,780 and \$621,066, respectively, into the 401(a) Plan. Under the new MOU (as discussed under the caption "THE DISTRICT—Employee Relations"), employees may receive a matching contribution of 2%, 3% and 4%, as of July 24, 2016, January 1, 2018 and January 1, 2019, respectively. Currently, approximately 80% of employees voluntarily contribute to the District-sponsored 401(a) Plan; 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 its bargaining unit. 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.

The annual required contribution (the “**OPEB ARC**”) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The OPEB ARC is equal to the normal cost each year plus a closed period amortization of the unfunded actuarial liability. Based on the actuarial valuation of the District’s OPEB plan as of June 30, 2015, the OPEB ARC for Fiscal Year 2016 was \$9,769,135.

The District is not required to fund, and until recently has not funded, the entire OPEB ARC. The District’s historic policy has been to pay for the OPEB plans’ costs as they are incurred.

However, 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.” Based on the actuarial valuation as of June 30, 2015, the actuarial unfunded liability of the District’s OPEB plan was approximately \$87,767,000.

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last five Fiscal Years was as follows:

<i>Fiscal Year</i>	<i>Annual OPEB Cost⁽¹⁾</i>	<i>Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation⁽²⁾</i>
2012	\$15,286,000	\$2,788,000	\$44,191,171
2013	11,852,000	5,740,000	50,212,171
2014	8,469,000	6,123,000	52,339,036
2015	8,568,000	8,842,531	51,927,505
2016	9,478,577	9,769,135	51,182,718

⁽¹⁾ Equal to the OPEB ARC.

⁽²⁾ See Note 8 in Appendix B for a description of the calculation of the net OPEB obligation.

Source: Eastern Municipal Water District.

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 as funding 90% of the accrued liability on an actuarial basis.
- The District intends to fully fund the actuarially determined OPEB ARC within 10 years, or by Fiscal Year 2023-24.

- 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 \$125 per month for 2016, 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 exceeds \$100 million. On September 17, 2014, the Board approved a one-time contribution of \$2,000,000 into the OPEB Trust in addition to the Fiscal Year 2015 budgeted contribution of \$6,842,531. Including the additional \$2,000,000 contribution, the District paid more than its actuarially determined OPEB ARC for Fiscal Year 2015. For Fiscal Years 2016 and 2017, the District made the full OPEB ARC contributions of \$9,769,135 and \$10,062,209, respectively.

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**”), beginning in Fiscal Year 2018, the District will be required to report 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 will report 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.

GASB 75 will also require the District to present more extensive disclosures and required supplementary information about its OPEB liabilities in the notes to its future 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 intends to comply with GASB 75 beginning with its Fiscal Year 2018 financial statements.

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 unaudited actual Fiscal Year 2016 results and the audited financial statements of the District for prior years. The audited financial statements of the District for Fiscal Year 2015 and the report thereon of Davis Farr, LLP (the "**Auditor**") are included as Appendix B to the 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 Indenture under which the 2016B Bonds are being issued. The Auditor has not reviewed or audited the summary operating results or any other portion of the Official Statement.

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

	<i>Fiscal Year 2012</i>	<i>Fiscal Year 2013</i>	<i>Fiscal Year 2014</i>	<i>Fiscal Year 2015</i>	<i>Fiscal Year 2016⁽⁴⁾</i>
OPERATING REVENUES:					
Water Sales	\$ 104,741,242	\$ 112,456,804	\$ 122,724,175	\$ 117,295,152	\$ 112,457,424
Sewer Service Charges	65,983,462	68,957,128	73,100,086	77,120,505	84,134,292
Recycled Water Sales	<u>5,135,186</u>	<u>5,676,043</u>	<u>6,125,420</u>	<u>6,392,763</u>	<u>9,699,373⁽⁵⁾</u>
Total Operating Revenues	\$ 175,859,890	\$ 187,089,975	\$ 201,949,681	\$ 200,808,420	\$ 206,291,089
OPERATING EXPENSES:					
Water purchases	\$ 52,697,993 ⁽²⁾	\$ 58,445,847 ⁽²⁾	\$ 63,850,688 ⁽²⁾	\$ 59,040,009	\$ 50,334,462 ⁽⁶⁾
Water operations	40,789,231	40,994,915	44,193,507	45,691,510	43,582,087
Sewer operations	47,057,011	46,271,994	48,703,113	48,845,706	48,383,122
OPEB Trust ⁽¹⁾	2,620,589	5,740,000	6,123,000	8,568,000	9,478,577
General and administrative	<u>27,112,598</u>	<u>28,392,519</u>	<u>28,352,049</u>	<u>28,677,026</u>	<u>31,076,830</u>
Total Operating Expenses	\$ 170,277,422	\$ 179,845,275	\$ 191,222,357	\$ 190,822,251	\$ 182,855,078
OPERATING INCOME (LOSS)	\$ 5,582,468	\$ 7,244,700	\$ 10,727,324	\$ 9,986,169	\$ 23,436,010
NON-OPERATING REVENUES:					
Property taxes - General Purpose	\$ 26,574,300	\$ 27,243,490	\$ 28,061,489	\$ 30,843,713	\$ 32,271,305
Standby charges	5,600,661	5,635,153	5,700,591	5,735,466	5,784,242
Wastewater connection fees	8,730,097	14,679,805	21,162,000	18,690,317	32,252,569
Water connection fees	3,428,721	4,077,007	7,506,888	8,079,280	10,147,771
Water supply development fee	480,955	1,645,651	1,480,973	1,538,026	1,980,034
Water and sewer frontage fees ⁽³⁾	(7,992)	(38,278)	-	-	-
Interest income	7,431,966	4,485,217	3,133,313	3,092,643	3,021,605
Grants/Other Income/(Expenses)	<u>17,881,648</u>	<u>15,470,830</u>	<u>6,161,906</u>	<u>4,659,388</u>	<u>13,457,861</u>
Total Non-Operating Revenues	\$ 70,120,356	\$ 73,198,875	\$ 73,207,160	\$ 72,638,833	\$ 98,915,333
NET WATER AND SEWER REVENUES FOR DEBT COVERAGE	\$ 75,702,824	\$ 80,443,575	\$ 83,934,484	\$ 82,625,002	\$ 122,351,343
PARITY OBLIGATION DEBT SERVICE:					
Parity Obligation Payments	\$ 37,044,680	\$ 35,061,971	\$ 35,521,108	\$ 26,604,369	\$ 28,337,000
State Loan Debt Service Payments	<u>4,115,116</u>	<u>4,322,228</u>	<u>4,013,353</u>	<u>5,877,892</u>	<u>-</u>
Total Parity Obligation Debt Service	\$ 41,159,796	\$ 39,384,199	\$ 39,534,461	\$ 32,482,261	\$ 28,337,000
DEBT SERVICE COVERAGE	1.8 x	2.0 x	2.1 x	2.5 x	4.3 x
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS	\$ 34,543,028	\$ 41,059,376	\$ 44,400,023	\$ 50,142,741	\$ 94,014,343
SUBORDINATE OBLIGATION DEBT SERVICE					
Subordinate Obligation Payments	\$ -	\$ -	\$ -	\$ 2,917,542	\$ 7,353,000
State Loan Debt Service Payments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,878,000</u>
Total Subordinate Obligation Debt Service	\$ -	\$ -	\$ -	\$ 2,917,542	\$ 13,231,000
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE	N/A	N/A	N/A	17.2 x	7.1 x
REMAINING REVENUES	\$ 34,543,028	\$ 41,059,376	\$ 44,400,023	\$ 47,225,199	\$ 80,783,343
TOTAL DEBT SERVICE	\$ 41,159,796	\$ 39,384,199	\$ 39,534,461	\$ 35,399,803	\$ 41,568,000
ALL-IN DEBT SERVICE COVERAGE	1.8 x	2.0 x	2.1 x	2.3 x	2.9 x

⁽¹⁾ See the caption "HISTORICAL FINANCIAL OPERATIONS—Post-Employment Healthcare Benefits." Reflects \$2,000,000 contribution to OPEB Trust in September 2014.

⁽²⁾ Increases in water purchase costs in Fiscal Years 2012 through 2014 reflect increased water sales and MWD rate increases. See Table 9 under the caption "WATER RESOURCES, FACILITIES AND USAGE—Water Production" and Table 5 under the caption "WATER RESOURCES, FACILITIES AND USAGE—The Metropolitan Water District of Southern California—MWD Revenues."

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- (3) These fees were eliminated in Fiscal Year 2013.
 - (4) Unaudited actual Fiscal Year 2016 results.
 - (5) Increase from Fiscal Year 2015 reflects transfer from sewer services fund to recycled water fund.
 - (6) Decrease from Fiscal Year 2015 reflects reduced water purchases as a result of Statewide drought and mandatory State conservation orders with respect thereto. See the caption “WATER RESOURCES, FACILITIES AND USAGE—Drought Measures.”
- 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 20 under the caption “PROJECTED OPERATING RESULTS” to the District’s historical operating results set forth above in Table 19, a modified summary of revenues of 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 wastewater 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 wastewater 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. 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. Projected debt service coverage set forth in the below table is calculated in accordance with the Indenture under which the 2016B Bonds are being issued. 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 4 above under the caption “THE DISTRICT—Debt Structure of the District—Summary of Parity Obligation Debt Service” for a presentation of actual 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—Drought Measures,” the California Governor has declared a drought state of emergency and the Governor and various State of California entities have issued orders and regulations in connection therewith. In response to such measures, the District is currently implementing Stage 3C of its WSCP. The below projections reflect reduced water supplies and sales as a result of the District’s compliance with State of California mandates relating to the drought. 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 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 principal of and interest on the 2016B 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 debt service on the 2016B Bonds. See the Official Statement under the caption "SECURITY FOR THE 2016B BONDS—Rate Covenant."

TABLE 20
EASTERN MUNICIPAL WATER DISTRICT
Projected Operating Results
Summary of Modified Revenues and Expenses

	<i>Fiscal Year 2017⁽¹⁾</i>	<i>Fiscal Year 2018</i>	<i>Fiscal Year 2019</i>	<i>Fiscal Year 2020</i>	<i>Fiscal Year 2021</i>
OPERATING REVENUES:					
Water Sales ⁽²⁾	\$ 114,591,000	\$ 124,672,656	\$ 135,178,926	\$ 146,157,978	\$ 152,735,087
Sewer Service Charges ⁽³⁾	83,768,000	87,956,400	93,870,180	100,147,867	106,810,727
Recycled Water Sales ⁽⁴⁾	<u>9,732,900</u>	<u>10,219,545</u>	<u>10,730,522</u>	<u>11,267,048</u>	<u>11,830,401</u>
Total Operating Revenues	\$ 208,091,900	\$ 222,848,601	\$ 239,779,628	\$ 257,572,893	\$ 271,376,214
OPERATING EXPENSES:					
Water purchases ⁽⁵⁾	\$ 54,148,000	\$ 56,043,180	\$ 58,004,691	\$ 60,034,855	\$ 62,136,075
Water operations ⁽⁶⁾	47,662,900	51,239,341	53,426,039	55,625,900	57,934,714
Sewer operations ⁽⁷⁾	52,879,500	54,307,247	55,773,542	57,279,428	58,825,416
OPEB Trust ⁽⁸⁾	10,063,000	12,295,173	13,524,691	14,200,925	14,910,971
General and administrative ⁽⁹⁾	<u>35,256,000</u>	<u>35,608,964</u>	<u>35,965,054</u>	<u>36,324,704</u>	<u>36,687,951</u>
Total Operating Expenses	\$ 200,009,400	\$ 209,493,905	\$ 216,694,017	\$ 223,465,812	\$ 230,495,128
OPERATING INCOME (LOSS)	\$ 8,082,500	\$ 13,354,696	\$ 23,085,611	\$ 34,107,081	\$ 40,881,086
NON-OPERATING REVENUES:					
Property taxes - General Purpose ⁽¹⁰⁾	\$ 31,463,672	\$ 31,778,308	\$ 32,096,091	\$ 32,417,052	\$ 32,741,223
Standby charges ⁽¹¹⁾	5,726,700	5,783,967	5,841,807	5,900,225	5,959,000
Wastewater connection fees ⁽¹²⁾	30,951,196	33,346,824	35,768,234	38,499,139	41,438,548
Water connection fees ⁽¹³⁾	13,462,350	14,508,875	15,559,544	16,747,515	18,026,188
Water supply development fee ⁽¹⁴⁾	811,800	849,300	884,400	924,198	965,787
Interest income ⁽¹⁵⁾	3,040,000	5,091,670	7,539,481	8,507,288	9,628,000
Grants/Other Income/(Expenses) ⁽¹⁶⁾	<u>6,500,000</u>	<u>6,500,000</u>	<u>6,500,000</u>	<u>6,500,000</u>	<u>6,500,000</u>
Total Non-Operating Revenues	\$ 91,955,718	\$ 97,858,945	\$ 104,189,557	\$ 109,495,417	\$ 115,258,746
NET WATER AND SEWER REVENUES FOR DEBT COVERAGE ⁽¹⁷⁾	\$ 100,038,218	\$ 111,213,641	\$ 127,275,168	\$ 143,602,497	\$ 156,139,832
PARITY OBLIGATION DEBT SERVICE ⁽¹⁸⁾ :	\$ 13,806,231	\$ 9,694,231	\$ 10,296,931	\$ 11,018,881	\$ 10,393,578
PARITY OBLIGATION DEBT SERVICE COVERAGE ⁽¹⁹⁾	7.2 x	11.5 x	12.4 x	13.0 x	15.0 x
REVENUES AVAILABLE FOR SUBORDINATE OBLIGATIONS ⁽²⁰⁾	\$ 86,231,987	\$ 101,519,410	\$ 116,978,237	\$ 132,583,617	\$ 145,746,254
SUBORDINATE OBLIGATION DEBT SERVICE⁽²¹⁾					
Subordinate Obligation Payments	\$ 19,848,113	\$ 29,366,613	\$ 30,246,960	\$ 31,212,081	\$ 31,232,727
State Loan Debt Service Payments	<u>6,521,018</u>	<u>6,736,819</u>	<u>6,824,930</u>	<u>6,824,930</u>	<u>6,824,930</u>
Total Subordinate Obligation Debt Service	\$ 26,369,131	\$ 36,103,432	\$ 37,071,890	\$ 38,037,011	\$ 38,057,657
SUBORDINATE OBLIGATION DEBT SERVICE COVERAGE ⁽²²⁾	3.3 x	2.8 x	3.2 x	3.5 x	3.8 x
REMAINING REVENUES ⁽²³⁾	\$ 59,862,855	\$ 65,415,978	\$ 79,906,346	\$ 94,546,606	\$ 107,688,597
TOTAL DEBT SERVICE ⁽²⁴⁾	\$ 40,175,363	\$ 45,797,663	\$ 47,368,822	\$ 49,055,893	\$ 48,451,235
ALL-IN DEBT SERVICE COVERAGE ⁽²⁵⁾	2.5 x	2.4 x	2.7 x	2.9 x	3.2 x

⁽¹⁾ Reflects budgeted Fiscal Year 2017 amounts with certain adjustments.

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- (2) Based on District projections of increases in connections, approved rate increases of an average of approximately 2.0% effective January 1, 2017 and projected rate increases of approximately 4.5% per annum thereafter. Also reflects \$2.25 monthly Water Reliability Capital Charge and an additional \$1.00 monthly fixed charge effective January 1, 2017, to offset MWD's water rates and rising energy and labor costs. Assumes additional \$3.00 monthly fixed charge effective July 1, 2018 and 2019 and additional \$2.00 monthly fixed charge effective July 1, 2020. See the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues." Water sales projected at approximately 72,000 acre feet per year. Increases in rates and charges are subject to 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, adopted rate increases of approximately 1.5% effective July 1, 2016 and projected rate increases of approximately 5.0% per annum thereafter to cover energy, labor and other operational costs. Also reflects \$2.25 monthly Sewer Capital Charge effective July 1, 2016. See the captions "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues." Increases in rates and charges are subject to 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 5.0% per annum. See the caption "HISTORICAL FINANCIAL OPERATIONS—Operating Revenues." Rate increases are subject to 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 "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. Reflects MWD rates set forth in Table 5 under the caption "WATER RESOURCES, FACILITIES AND USAGE—The Metropolitan Water District of Southern California." 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 56,000 acre feet, in Fiscal Year 2017.
- (6) Based on District projections. In Fiscal Year 2017, water operating costs are projected to increase by approximately 4.0%, reflecting projected increases in conservation costs and well maintenance expenses.
- (7) Projected to increase by approximately 9.2% per annum in Fiscal Year 2017, reflecting historical trends, and approximately 2.7% per annum thereafter.
- (8) Reflects projected deposits to OPEB Trust described under the caption "HISTORICAL FINANCIAL OPERATIONS—Post-Employment Healthcare Benefits."
- (9) Fiscal Year 2017 amount based on adopted budget. Projected to increase approximately 4.0% per annum thereafter. Increases reflect projections of higher wages and benefits due to contractual obligations.
- (10) Projected to increase approximately 2.0% per annum from Fiscal Year 2015 amount in Fiscal Year 2017 and 1.0% per annum thereafter, 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 approximately 1.0% 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. Increase from Fiscal Year 2016 amount in Fiscal Year 2017 reflects increased development within the District's service area. Sewer EDUs are projected to increase from 3,866 in Fiscal Year 2017 to 4,599 in Fiscal Year 2021. The proposed rates over the forecast period range from \$8,006 per EDU in Fiscal Year 2017 to \$9,011 per EDU in Fiscal Year 2021. 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. Increase from Fiscal Year 2016 amount in Fiscal Year 2017 reflects increased development within the District's service area. Water EMSes are projected to increase from 2,706 in Fiscal Year 2017 to 3,219 in Fiscal Year 2021. The proposed rates over the forecast period range from \$4,975 in Fiscal Year 2017 to \$5,599 in Fiscal Year 2021. 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, 2016, the District had approximately \$300 million in available cash reserves, representing approximately 596 days cash on hand. The District's total investment portfolio (including restricted reserves), from which it derives interest earnings, is approximately \$439 million and is invested in various securities with an average yield of approximately 0.89% as of June 30, 2016. 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. Net other income is projected to remain stable at approximately \$6,500,000 per annum.
- (17) Operating Income (Loss) plus Total Non-Operating Revenues.
- (18) See the caption "THE DISTRICT—Debt Structure of the District." Debt service on the variable rate 2008C Certificates is calculated at the 2008C Swap rate of 5.125% per annum through the forecast period. Debt service on the Series 2012A Bonds and the Series 2013A Bonds is projected at 0.80%, 1.20%, 1.80%, 2.50% and 2.50% for Fiscal Years 2017 through 2021, respectively. Debt service figures differ from the projected debt service set forth in Table 4 as a result of differing interest rate assumptions on variable rate obligations. Reflects prepayment of the 2008H Certificates from proceeds of the 2016B Bonds, as discussed in the Official Statement under the caption "THE REFUNDING PLAN."
- (19) Net Water and Sewer Revenues for Debt Coverage divided by Parity Obligation Debt Service.

(Footnotes Continued on Following Page)

(Footnotes Continued from Prior Page)

- ⁽²⁰⁾ Net Water and Sewer Revenues for Debt Coverage minus Parity Obligation Debt Service.
- ⁽²¹⁾ Reflects debt service on the 2014A Bonds, 2014B Bonds and 2015A Bonds at projected interest rates of 0.80%, 1.20%, 1.80%, 2.50% and 2.50% for Fiscal Years 2017 through 2021, respectively. Debt service on the variable rate 2014C Bonds is calculated at the 2014C Swap rate of 3.10% per annum through the forecast period. Reflects scheduled debt service on the 2015B IPA, 2016A Bonds and 2016B Bonds, as well as the State Loans. Debt service figures differ from the projected debt service set forth in Table 4 as a result of differing interest rate assumptions on variable rate obligations. Reflects prepayment of the 2008H Certificates from proceeds of the 2016B Bonds, as discussed in the Official Statement under the caption "THE REFUNDING PLAN."
- ⁽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
DISTRICT FINANCIAL STATEMENTS

APPENDIX C

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Master Resolution, the Installment Purchase Agreement and the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Indenture 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 the Master Resolution as defined in the front portion of this Official Statement.

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 by its terms 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 (see, “The Certificates - Rate Covenant” in the front portion of the Official Statement) 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 System or applied to the cancellation of Parity Obligations.

INSTALLMENT PURCHASE AGREEMENT

DEFINITIONS

Definitions. Unless the context otherwise requires, the terms defined in the Installment Purchase Agreement will for all purposes thereof and of any amendment thereof or supplement thereto and of any report or other document mentioned therein have the meanings defined in the Installment Purchase Agreement, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined therein. Unless the context otherwise requires, all capitalized terms used in the Installment Purchase Agreement and not defined therein have the meanings ascribed thereto in the Indenture.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Acquisition Fund. The term "Acquisition Fund" means the fund by that name created pursuant to the Installment Purchase Agreement.

Authority. The term "Authority" means the Eastern Municipal Water District Financing Authority, a public body duly organized and existing under the Joint Exercise of Powers Agreement, and under the Constitution and laws of the State.

Bonds. The term "Bonds" means the 2014A Bonds, the 2014B Bonds, the 2014C Bonds, the 2015A Bonds, the 2016A Bonds and all other revenue bonds or notes 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 Installment Payments and which are secured by a pledge of and lien on Net Revenues as described in the Installment Purchase Agreement. The term "Bonds" as defined in the Installment Purchase Agreement does not have the meaning assigned to such term in the Master Resolution, and "Bonds" as defined in the Installment Purchase Agreement constitute "Subordinate Obligations" under the Master Resolution so long as the Master Resolution is operative.

Continuing Disclosure Certificate. The term "Continuing Disclosure Certificate" means the Continuing Disclosure Certificate of the District, dated the Closing Date and relating to the 2016B Bonds, as originally executed and as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term "Contracts" means the Installment Purchase Agreement and any amendments and supplements thereto, the 2015B Installment Purchase Agreement, the Liquidity Facilities, the 2008C Swap, the 2014C Swap, the State Loans and all other contracts of the District previously or subsequently authorized and executed by the District, the Parity Installment Payments with respect to which are payable from Net Revenues on a

parity with the Installment Payments and which are secured by a pledge of and lien on Net Revenues as described in the Installment Purchase Agreement; and excluding contracts entered into for maintenance and operation of the Water and Sewer System. The term “Contracts” as defined in the Installment Purchase Agreement does not have the meaning assigned to such term in the Master Resolution, and “Contracts” as defined in the Installment Purchase Agreement constitute “Subordinate Obligations” under the Master Resolution so long as the Master Resolution is operative.

Corporation. The term “Corporation” means the Eastern Municipal Water District Facilities Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State.

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: (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 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, Bonds or Contracts to the extent that such income is required to be available to make payments on Parity Obligations, 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.

Debt Service. The term “Debt Service” means, for any period of calculation, the sum of: (i) the interest payable during such 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 (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 maturing in such period; (iii) those portions of the principal amount of all outstanding term 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 2008C Swap, the 2014C 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, the principal amount of any amounts 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 or Contracts; provided that, as to any such 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 or Contracts has accrued for at least twelve (12) months, at the average interest rate with respect to such Bonds or Contracts over the preceding twelve (12) months; or (B) if interest on such Bonds or Contracts has not accrued for at least twelve (12) months, at: (y) the average of the Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations for the twelve (12) months prior to the time of such calculation (in the case of tax-exempt variable rate obligations) plus any applicable spread to the Securities Industry and Financial Markets Association Index or other index for such Bonds or Contracts, as such spread is determined

by the applicable indenture or trust agreement pursuant to which such 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 twelve (12) months prior to the time of such calculation (in the case of taxable variable rate obligations) plus any applicable spread to the 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 or Contracts were issued or delivered, as applicable; provided further that if any series or issue of such 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 or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and provided further that, as to any such 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 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 or Contracts will be calculated only when due and payable; and provided further that if the Bonds or Contracts constitute Paired Obligations, the interest rate on such 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 Installment Purchase Agreement; 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 and 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.

The term “Debt Service” as defined in the Installment Purchase Agreement does not have the meaning assigned to such term in the Master Resolution, and “Debt Service” as defined in the Installment Purchase Agreement constitute “Subordinate Obligation Payments” under the Master Resolution so long as the Master Resolution is operative.

District. The term “District” means the Eastern Municipal Water District, a municipal water district duly organized and existing under and by virtue of the laws of the State.

Event of Default. The term “Event of Default” means an event described in the Installment Purchase Agreement.

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 twelve month period selected and designated as the official Fiscal Year of the District.

General Manager. The term “General Manager” means the General Manager of the District, or any other person designated by the General Manager to act on behalf of the General Manager.

General Reserve Fund. The term “General Reserve Fund” means the fund by that name established pursuant to the Master Resolution.

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.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of September 1, 2016, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, each of whom is independent of the District and the

Authority pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term “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.

Initial Rating Requirement. The term “Initial Rating Requirement” means the rating requirement described in the Installment Purchase Agreement.

Installment Payment Date. The term “Installment Payment Date” means the fourth day prior to each Interest Payment Date, or if said date is not a Business Day, then the preceding Business Day.

Installment Payments. The term “Installment Payments” means the installment payments of interest and principal scheduled to be paid by the District under and pursuant to the Installment Purchase Agreement.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of September 1, 2016, by and between the District and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

Interest Payment Date. The term “Interest Payment Date” means January 1 and July 1 of each year, commencing January 1, 2017.

Joint Exercise of Powers Agreement. The term “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 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. The term “Law” means the Municipal Water District Law of the State (being Division 20 of the Water Code of the State of California, as amended), and all laws amendatory thereof or supplemental thereto.

Liquidity Facilities. The term “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 2015A Bonds, the 2014C Bonds, the 2014B Bonds and the 2014A Bonds or any other Bonds or Contracts tendered for purchase in accordance with the provisions thereof.

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 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 or Contracts, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Parity Obligations, Bonds or Contracts, fees and expenses of independent certified public accountants and amounts due to Liquidity Facility providers 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. 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 payments 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.

Minimum Rating Requirement. The term “Minimum Rating Requirement” means the rating requirement described in the Installment Purchase Agreement.

Net Proceeds. The term “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. The term “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 Installment Purchase Agreement, 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. 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 Operation Costs during such Fiscal Year or period.

Paired Obligation Provider. The term “Paired Obligation Provider” means a party to a Paired Obligation other than the District.

Paired Obligations. The term “Paired Obligations” means any 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 comply with the provisions of the Installment Purchase Agreement.

Parity Installment Payment Date. The term “Parity Installment Payment Date” means each date on which Parity Installment Payments are scheduled to be paid by the District under and pursuant to any Contract.

Parity Installment Payments. The term “Parity Installment Payments” means the payments of interest and principal scheduled to be paid by the District under and pursuant to the Contracts.

Parity Obligations. The term “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 Bonds and Contracts, including but not limited to: (i) the District’s Refunding Water and Sewer Revenue Bonds, Series 2013A; (ii) the District’s Refunding Water and Sewer Revenue Bonds, Series 2012A; (iii) the District’s Refunding Water and Sewer Revenue Bonds, Series 2011A; (iv) the 2008C Installment Sale Agreement, dated as of June 1, 2008, by and between the District and the Corporation, as amended; and (v) the Third Amendment to 1991A Installment Sale Agreement, dated as of May 1, 2007, by and between the District and the Corporation.

Purchase Price. The term “Purchase Price” means the principal amount plus interest thereon owed by the District to the Authority under the terms of the Installment Purchase Agreement as provided therein.

Rate Stabilization Fund. The term “Rate Stabilization Fund” means the fund by that name established pursuant to the Master Resolution.

State Loans. The term “State Loans” 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 \$38,362,890, 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 \$43,546,128; (iv) State Revolving Fund Loan Contract No. 11-835-550, dated December 9, 2011, by and between the District and SWRCB, relating to the Enchanted Heights Sewer System Project (Project No. C-06-7203-110), in the original approved principal amount of approximately \$5,000,000; (v) 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; (vi) 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; and (vii) Any future loans by and between the District and any State entity that are payable from Net Revenues on a parity with the Bonds and Contracts.

Subordinate Obligation. The term “Subordinate Obligation” has the meaning set forth in the Master Resolution.

Subordinate Obligation Payment Fund. The term “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 Installment Purchase Agreement.

2008C Swap. The term “2008C Swap” means, collectively: (1) the 1992 International Swaps and Derivatives Association, Inc., Master Agreement; (2) with 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 December 12, 2014, and each by and between Wells Fargo Bank, N.A. and the District, relating to the District’s Water and Sewer Revenue Refunding Variable Rate Certificates of Participation, Series 2008C, and all exhibits thereto, as amended or restated from time to time.

2008H Project. The term “2008H Project” means the acquisition and construction of the Water and Sewer System facilities described as the 2008H Project in the Installment Purchase Agreement.

2014A Bonds. The term “2014A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014A issued by the District pursuant to the Indenture of Trust, dated as of June 1, 2014, by and between the District and the Trustee.

2014B Bonds. The term “2014B Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014B issued by the District pursuant to the Indenture of Trust relating thereto, dated as of October 1, 2014, by and between the District and the Trustee.

2014C Bonds. The term “2014C Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2014C issued by the District pursuant to the Indenture of Trust relating thereto, dated as of October 1, 2014, by and between the District and the Trustee.

2014C Swap. The term “2014C Swap” means, collectively: (1) the 1992 International Swaps and Derivatives Association, Inc., Master Agreement; (2) with 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 2014C Bonds, and all exhibits thereto, as amended or restated from time to time.

2015A Bonds. The term “2015A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2015A issued by the District pursuant to the Indenture of Trust, dated as of June 1, 2016, by and between the District and the Trustee.

2015B Installment Purchase Agreement. The term “2015B Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of June 1, 2015, by and between the District and the Authority.

2016A Bonds. The term “2016A Bonds” means the Eastern Municipal Water District Refunding Water and Wastewater Revenue Bonds, Series 2016A issued by the Authority pursuant to the Indenture of Trust, dated as of April 1, 2016, by and between the District and the Trustee.

2016B Bonds. The term “2016B Bonds” means the Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2016B issued by the Authority pursuant to the Indenture.

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 Revenue Fund. The term “Water and Sewer Revenue Fund” means the fund by that name established pursuant to the Master Resolution.

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.

Written Consent of the Authority or District; Written Order of the Authority or District; Written Request of the Authority or District; Written Requisition of the Authority or District. The terms “Written Consent of the Authority or District,” “Written Order of the Authority or District,” “Written Request of the Authority or District,” and “Written Requisition of the Authority or District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of: (i) the Authority by its Authorized Representative; or (ii) the District by the President of its Board of Directors or its General Manager or by the Secretary of its Board of Directors or by any two persons (whether or not officers 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.

SALE AND PURCHASE OF THE 2008H PROJECT

Sale and Purchase of the 2008H Project. The parties have confirmed that the District currently has title to the 2008H Project. In consideration for the Authority's assistance in refinancing the 2008H Project, the District has agreed to sell, and has sold, to the Authority, and the Authority has agreed to purchase, and has purchased, from the District, the 2008H Project at the purchase price specified in the Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the Installment Purchase Agreement.

Purchase and Sale of the 2008H Project. In consideration for the Installment Payments as set forth in the Installment Purchase Agreement, the Authority has agreed to sell, and has sold, to the District, and the District has agreed to purchase, and has purchased, from the Authority the 2008H Project at the Purchase Price specified in the Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the Installment Purchase Agreement.

Title. All right, title and interest in each component of the 2008H Project will vest in the District immediately upon execution and delivery of the Installment Purchase Agreement. Such vesting will occur without further action by the Authority or the District, and the Authority will, if requested by the District or if necessary to assure such automatic vesting, deliver any and all documents required to assure such vesting.

INSTALLMENT PAYMENTS

Purchase Price. (a) The Purchase Price to be paid by the District under the Installment Purchase Agreement to the Authority is the sum of the principal amount of the District's obligations thereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date thereof over the term thereof, subject to prepayment as provided therein. (b) The principal amount of the payments to be made by the District under the Installment Purchase Agreement is set forth therein. (c) The interest to accrue on the unpaid balance of such principal amount is as specified in the Installment Purchase Agreement, and will be paid by the District as and constitute interest paid with respect to the principal amount of the District's obligations thereunder.

Installment Payments. The District will, subject to any rights of prepayment provided Installment Purchase Agreement, pay the Authority the Purchase Price in installment payments of interest and principal in the amounts and on the Installment Payment Dates as set forth in the Installment Purchase Agreement.

Each Installment Payment will be paid to the Authority in lawful money of the United States of America. In the event that the District fails to make any of the payments required to be made by it under the Installment Purchase Agreement, such payment will continue as an obligation of the District until the amount thereof has been fully paid; and the District has agreed to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Installment Payments if paid in accordance with their terms.

SECURITY

Obligations Subordinate to the Installment Payments. Notwithstanding any other provision of the Installment Purchase Agreement, the District may issue or execute and deliver, as applicable, obligations that are payable from Net Revenues on a subordinate basis to the Installment Payments at any time in the District's sole discretion.

Senior Obligations. Notwithstanding any other provision of the Installment Purchase Agreement, the District may issue or execute and deliver, as applicable, additional obligations payable on a basis senior to the Installment Payments in accordance with the Master Resolution.

Investments. 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 Installment Purchase Agreement.

COVENANTS OF THE DISTRICT

Compliance with Installment Purchase Agreement and Ancillary Agreements. The District will punctually pay the Installment Payments in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all of the agreements, conditions, covenants and terms contained therein required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2008H Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained therein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

It is expressly understood and agreed by and among the parties to the Installment Purchase Agreement that, subject to the Installment Purchase Agreement, each of the agreements, conditions, covenants and terms contained in the Installment Purchase Agreement is an essential and material term of the purchase of and payment for the 2008H Project by the District pursuant to, and in accordance with, and as authorized under the Law.

The District will faithfully observe and perform all of the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

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 Installment Purchase Agreement. The District may at any time, or from time to time, execute Contracts or issue Bonds as permitted in the Installment Purchase Agreement. 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 will be subordinate in all respects to the pledge of and lien thereon provided in the Installment Purchase Agreement.

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 that is necessary to secure adequate Net Revenues for the payment of the Installment Payments, or which would otherwise impair the rights of the Authority under the Installment Purchase Agreement or 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 Installment Payments and if the proceeds of such sale are deposited in the Water and Sewer Revenue Fund.

Nothing in the Installment Purchase Agreement 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 that is competitive with the Water and Sewer System.

Tax Covenants. Notwithstanding any other provision of the Installment Purchase Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of interest with respect to the 2016B 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 with respect to the 2016B Bonds and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action, refrain from taking any action and make no use of the proceeds of the 2016B Bonds or of any other moneys or property that would cause the 2016B 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 2016B Bonds or of any other amounts or property, regardless of the source, and will not take or omit to take any action, that would cause the 2016B 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 2016B Bonds and will not take or omit to take any action that would cause the 2016B 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 requirements of Section 149(e) of the Code that are necessary to preserve the exclusion of interest on the 2016B Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the 2016B Bonds or any other amounts or property, regardless of the source, and will not take any action or refrain from taking any action that would cause the 2016B 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 2016B Bonds for federal income tax purposes; and

(f) Miscellaneous. The District will take no action, and will not omit to take any action, that is inconsistent with the expectations stated in any Tax Certificate executed with respect to the 2016B Bonds, and the District will comply with the covenants and requirements that are stated therein and incorporated by reference in the Installment Purchase Agreement.

The foregoing tax covenants are not applicable to, and nothing contained in the Installment Purchase Agreement will be deemed to prevent the District from issuing Bonds or executing and delivering Contracts, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

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 Installment Purchase Agreement or on any funds in the hands of the District pledged to pay the Installment Payments or to the 2016B Bond Owners prior or superior to the lien of the Installment Payments, or which might impair the security of the Installment Payments.

Compliance with Contracts. The District will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the District to pay Installment Payments; and 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 other contracts affecting or involving the Water and Sewer System, to the extent that the District is a party thereto.

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 will be completed and the Water and Sewer System will be 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 2016B Bond Owners, which insurance will afford 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 that are 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.

Accounting Records; Financial Statements and Other Reports. (a) The District will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the District, which records will be available for inspection by the Authority and the Trustee (which has no duty to inspect such records) at reasonable hours and under reasonable conditions. (b) The District will prepare and file with the Authority and the Trustee annually within 270 days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2016) 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.

Protection of Security and Rights of the Authority. The District will preserve and protect the security of the Installment Purchase Agreement and the rights of the Authority to the Installment Payments thereunder and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may subsequently 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 will not be 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 that are not required by the District for such purpose will be deposited in the Water and Sewer Revenue Fund.

Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Agreement and for the better assuring and confirming unto the Authority of the rights and benefits provided to it therein.

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 subsequently entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the District to pay Installment Payments.

Continuing Disclosure. The District has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate to be executed and delivered by the District in connection with the issuance of the 2016B Bonds. Notwithstanding any other provision of the Installment Purchase Agreement, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, any Owner of 2016B Bonds 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 under the Installment Purchase Agreement. For purposes of the Installment Purchase Agreement, “Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2016B Bonds (including persons holding 2016B Bonds through nominees, depositories or other intermediaries).

PREPAYMENT OF INSTALLMENT PAYMENTS

Prepayment. (a) The District may prepay the Installment Payments maturing on or after the Installment Payment Date preceding July 1, 2027, as a whole or in part, or as otherwise selected by the District, on any date on or after July 1, 2026, from any available funds. The principal amount of the unpaid Installment Payments is payable at a prepayment price equal to the principal amount of the Installment Payments to be prepaid plus accrued interest thereon to the date of prepayment, without premium.

(b) Notwithstanding any such prepayment, the District will not be relieved of its obligations under the Installment Purchase Agreement until the Purchase Price has been fully paid (or provision for payment thereof has been provided to the written satisfaction of the Authority).

Method of Prepayment. Before making any prepayment pursuant to the Installment Purchase Agreement, the District may, within five days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment of the Installment Payments will be made, which date must not be less than 40 days from the date such notice is given, unless such prepayment must occur on an Interest Payment Date, in which case such date must be the next Interest Payment Date with respect to which notice of prepayment may be timely given pursuant to the Indenture.

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Events of Default. The following events are Events of Default under the Installment Purchase Agreement: (a) Default is made by the District in the due and punctual payment of any Installment Payment or any Contract or Bond when and as the same becomes due and payable; (b) Default is made by the District in the performance of any of the other agreements or covenants required in the Installment Purchase Agreement or in any Contract or Bond to be performed by it, and such default has continued for a period of 60 days after the District has been given notice in writing of such default by the Authority; 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 Installment Purchase Agreement; (c) 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; or (d) Payment of the principal of any Contract or Bond is accelerated in accordance with its terms;

Remedies of the Authority. If any Event of Default occurs and is continuing, the Authority has the right: (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 thereof, and to compel the District or any such director, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the Installment Purchase Agreement; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or (c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Notwithstanding anything contained in the Installment Purchase Agreement, the Authority will not have a security interest in or mortgage on the 2008H Project, the Water or Sewer System or other assets of the District, and no default under the Installment Purchase Agreement will result in the loss of the 2008H Project, the Water or Sewer System or other assets of the District.

The Authority will have no right to accelerate the payment of the Installment Payments.

Non-Waiver. Nothing in the Installment Purchase Agreement or in any other provision thereof affects or impairs the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Revenues, the Subordinate Obligation Payment Fund and the other funds therein pledged for such payment, or affects or impairs the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied therein.

A waiver of any default or breach of duty or contract by the Authority will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or will be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by the Law or by the Installment Purchase Agreement may be enforced and exercised from time to time and as often as will be deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the District and the Authority will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Authority in the Installment Purchase Agreement is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given thereunder or now or later existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law. If any remedial action is discontinued or abandoned, the Trustee and 2016B Bond Owners will be restored to their former positions.

DISCHARGE OF OBLIGATIONS

Discharge of Obligations. When:

(a) all or any portion of the Installment Payments have become due and payable in accordance with the Installment Purchase Agreement or a written notice of the District to prepay all or any portion of the Installment Payments has been filed with the Trustee; and

(b) there has been deposited with the Trustee at or prior to the Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in clause (i) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Installment Payments to their respective Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision has been made for paying all fees and expenses of the Trustee; and

(d) the principal amount of the 2016B Bonds equal to the principal component of the Installment Payments to be discharged under the Installment Purchase Agreement has been deemed no longer outstanding under the Indenture because of the application of funds or Permitted Investments received under clauses (a) and (b);

then and in that event, the right, title and interest of the Authority in the Installment Purchase Agreement and the obligations of the District thereunder will, with respect to all or such portion of the Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Installment Payments). In such event, upon request of the District, the Trustee will cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and will execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee will pay over to the District, after payment of all amounts due the Trustee pursuant to the Indenture, as an overpayment of Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the Installment Purchase Agreement other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Installment Payments, which moneys and Permitted Investments will continue to be held by the Trustee in trust for the payment of the Installment Payments and will be applied by the Trustee to the payment of the Installment Payments of the District.

MISCELLANEOUS

Liability of District Limited to Net Revenues. The obligation of the District to make the Installment Payments is a special obligation of the District that is payable solely from the Net Revenues, and does not constitute a debt of the District or of the State or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction. Notwithstanding anything contained in the Installment Purchase Agreement, the District is not required to advance any moneys derived from any source of income other than the Net Revenues and the Subordinate Obligation Payment Fund for the payment of amounts due under the Installment Purchase Agreement or for the performance of any agreements or covenants required to be performed by it contained therein. The District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained in the Installment Purchase Agreement, expressed or implied, is intended to give to any person other than the District or the Authority any right, remedy or claim under or pursuant thereto, and any agreement or covenant required therein to be performed by or on behalf of the District or the Authority is for the sole and exclusive benefit of the other party.

Successor Is Deemed Included in all References to Predecessor. Whenever either the District or the Authority is named or referred to in the Installment Purchase Agreement, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Authority, and all agreements and covenants required thereby to be performed by or on behalf of the District or the Authority will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Compensation and Indemnification of Trustee. The District will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The District will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust created under the Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture. The rights of the Trustee and the obligations of the District under the Installment Purchase

Agreement will survive removal or resignation of the Trustee under the Indenture or the discharge of the 2016B Bonds and the Indenture.

Waiver of Personal Liability. No director, officer or employee of the District will be individually or personally liable for the payment of the Installment Payments, but nothing contained in the Installment Purchase Agreement relieves any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Installment Purchase Agreement to be performed by or on the part of the District or the Authority is contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof will be null and void and will be deemed separable from the remaining agreements and covenants or portions thereof and will in no way affect the validity of the Installment Purchase Agreement. The District and the Authority have declared that they would have executed the Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof irrespective of the fact that any one or more 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.

Assignment. The Installment Purchase Agreement and any rights thereunder may be assigned by the Authority, as a whole or in part, without the necessity of obtaining the prior consent of the District.

Net Contract. The Installment Purchase Agreement will be deemed and construed to be a net contract, and the District will pay absolutely net during the term thereof the Installment Payments and all other payments required thereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

California Law. THE INSTALLMENT PURCHASE AGREEMENT IS CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Effective Date. The Installment Purchase Agreement will become effective upon its execution and delivery, and will terminate when the Purchase Price has been fully paid (or provision for the payment thereof has been made to the written satisfaction of the Authority).

Indemnification of Authority. The District has agreed to indemnify and hold harmless the Authority if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties under the Installment Purchase Agreement and under the Indenture; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation under the Installment Purchase Agreement or under the Indenture by the Authority.

Amendments Permitted.

(a) The Installment Purchase Agreement and the rights and obligations of the Authority, the District, the Owners of the 2016B Bonds and the Trustee may be modified or amended at any time by an amendment thereto which will become binding when the written consents of the Owners of a majority in aggregate principal amount of the 2016B Bonds then Outstanding, exclusive of 2016B Bonds disqualified as provided in the Indenture, has been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any 2016B Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each 2016B Bond so affected; or (2) reduce the aforesaid percentage of 2016B Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Installment Purchase Agreement, or deprive the Owners of the 2016B Bonds of the lien created by the Indenture on such Net Revenues and other assets except as permitted in the Installment Purchase Agreement, without the consent of the Owners of all of the 2016B Bonds then Outstanding.

(b) The Installment Purchase Agreement and the rights and obligations of the Authority, the District and of the Owners of the 2016B Bonds may also be modified or amended at any time by an amendment thereto which will become binding upon adoption, without the consent of the Owners of any 2016B Bonds, if the Trustee has received an opinion of Bond Counsel to the effect that the provisions of such amendment will not materially adversely affect the interests of the Owners of the Outstanding 2016B Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority or the District contained in the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power therein reserved to or conferred upon the Authority or the District, and which will not adversely affect the interests of the Owners of the 2016B Bonds;

(2) 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 Installment Purchase Agreement, as the Authority and the District may deem necessary or desirable;

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the 2016B Bonds; and

(4) to make any amendments or supplements necessary or appropriate to preserve or protect the exclusion of interest with respect to the 2016B Bonds from gross income for federal income tax purposes under the Code or the exemption of such interest from State personal income taxes.

No amendment without consent of the Owners of the 2016B Bonds may modify any of the rights or obligations of the Trustee without its written consent thereto.

Paired Obligation Provider Guidelines. For purposes of the Installment Purchase Agreement, Paired Obligations will comply with the following conditions:

(a) A Paired Obligation Provider will 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 Installment Purchase Agreement.

(c) 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 thirty (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 Installment Purchase Agreement without regard to payments to be received from the Paired Obligation Provider.

INDENTURE

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions. Unless the context otherwise requires, the terms defined in the Indenture will, for all purposes of the Indenture and of any indenture supplemental thereto and of any certificate, opinion or other document therein mentioned, have the meanings therein specified, to be equally applicable to both the singular and plural forms of any of the terms therein defined. Unless the context otherwise requires, all capitalized terms used in the Indenture and not defined have the meanings ascribed thereto in the Installment Purchase Agreement.

Accountant. The term “Accountant” means any firm of independent certified public accountants selected by the Authority in its sole discretion.

Acquisition Fund. The term “Acquisition Fund” means the fund by that name established pursuant to the Installment Purchase Agreement.

Authority. The term “Authority” means the Eastern Municipal Water District Financing Authority, a public body duly organized and existing under the Joint Exercise of Powers Agreement, and under the Constitution and laws of the State of California.

Authority Revenues. The term “Authority Revenues” means: (a) all Installment Payments received by the Authority or the Trustee pursuant to or with respect to the Installment Purchase Agreement; and (b) all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture.

Authorized Representative. The term “Authorized Representative” means with respect to the Authority, its Chair, Vice Chair, Secretary, Treasurer or Executive Director or any other person designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chair, Vice Chair, Secretary, Treasurer or Executive Director and filed with the Trustee.

Bond Counsel. The term “Bond Counsel” means Stradling, Yocca, Carlson & Rauth, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bond Year. The term “Bond Year” means the period beginning on the date of issuance of the 2016B Bonds and ending on July 1, 2017, and each successive one year or, during the last period prior to maturity, shorter period thereafter until there are no Outstanding 2016B Bonds.

Business Day. The term “Business Day” means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed; or (ii) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms “Certificate,” “Direction,” “Request,” and “Requisition” of the Authority mean a written certificate, direction, request or requisition signed in the name of the Authority by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for in the Indenture.

Closing Date. The term “Closing Date” means the date on which the 2016B Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Depository; DTC. The terms “Depository” and “DTC” mean The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the 2016B Bonds.

District. The term “District” means the Eastern Municipal Water District, a municipal water district duly organized and existing under and by virtue of the laws of the State.

Escrow Agent. The term “Escrow Agent” means U.S. Bank National Association, as escrow agent under the Escrow Agreement.

Escrow Agreement. The term “Escrow Agreement” means the Escrow Agreement (2008H Certificates), dated as of the date of the Indenture, by and between the District and the Escrow Agent.

Escrow Fund. The term “Escrow Fund” means the fund by that name that is established under the Escrow Agreement.

Event of Default. The term “Event of Default” means any of the events specified in the Indenture.

Federal Securities. The term “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.

Fiscal Year. The term “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 Authority.

Government Code. The term “Government Code” means the Government Code of the State.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of September 1, 2016, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may specify in a certificate to the Trustee.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of September 1, 2016, by and between the Authority and the District, as amended from time to time.

Interest Account. The term “Interest Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

Interest Payment Date. The term “Interest Payment Date” means January 1 and July 1 of each year commencing January 1, 2017.

Investment Agreement. The term “Investment Agreement” means an investment agreement supported by appropriate opinions of counsel, provided that, without limiting the foregoing, any such Investment Agreement will: (i) be fully collateralized or from a provider rated “A-” or “A3” or above by S&P or Moody’s, respectively; (ii) if not fully collateralized, require the District to terminate such agreement and immediately reinvest the proceeds thereof in other Permitted Investments if the rating assigned to the provider by S&P or Moody’s falls to “BBB+” or “Baa1” or below, respectively; and (iii) expressly permit the withdrawal, without penalty, of any amounts necessary at any time to fund any deficiencies on account of debt service requirements with respect to the 2016B Bonds, together with such amendments as may be approved by the District and the Trustee from time to time.

Joint Exercise of Powers Agreement. The term “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 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.

Letter of Representations. The term “Letter of Representations” means the letter of the Authority and the Trustee delivered to and accepted by the Depository on or prior to delivery of the 2016B Bonds as book-entry bonds setting forth the basis on which the Depository serves as depository for such book-entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the Authority and the Trustee delivered to and accepted by the Depository.

Moody's. The term “Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Office. The term “Office” means with respect to the Trustee, the principal corporate trust office of the Trustee at 633 West Fifth Street, 24th Floor, Los Angeles, California 90071, Attention: Corporate Trust Services, Reference: Eastern Municipal Water District Series 2016B, or at such other or additional offices as may be specified in writing by the Trustee to the Authority, except that with respect to presentation of 2016B Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to the Authority) selected by the Authority. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2016B Bonds, means (subject to the provisions of the Indenture) all 2016B Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (i) 2016B Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2016B Bonds with respect to which all liability of the Authority has been discharged in accordance with the Indenture, including 2016B Bonds (or portions thereof) described in the Indenture; and (iii) 2016B Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2016B Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2016B Bond Owner. The terms “Owner” or “2016B Bond Owner,” whenever used in the Indenture with respect to a 2016B Bond, mean the person in whose name the ownership of such 2016B Bond is registered on the Registration Books.

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

Permitted Investments. The term “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: (i) Federal Securities; and (ii) 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: Export Import Bank; Farmers Home Administration; General Services Administration; U.S. Maritime Administration; Small Business Administration; Government National Mortgage Association; 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 mature 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; and (9) any other investment permitted by law.

Principal Account. The term “Principal Account” means the account by that name in the Revenue Fund established pursuant to the Indenture.

Rating. The term “Rating” means any currently effective rating on the 2016B Bonds issued by a Rating Agency.

Rating Agencies. The term “Rating Agencies” means Moody’s, S&P and Fitch Ratings, Inc.

Rebate Fund. The term “Rebate Fund” means the fund by that name established pursuant to the Indenture.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the 15th day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term “Redemption Date” means the date fixed for an optional redemption prior to maturity of the 2016B Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to the Indenture.

Redemption Price. The term “Redemption Price” means, with respect to any 2016B Bond (or portion thereof), the principal amount of such 2016B Bond (or portion) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such 2016B Bond and the Indenture.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2016B Bonds pursuant to the Indenture.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time will be such officers, respectively, with responsibility for the administration of the Indenture.

Revenue Fund. The term “Revenue Fund” means the fund by that name established pursuant to the Indenture.

S&P. The term “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority may designate in a Request of the Authority deliver to the Trustee.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the 2016B Bonds issued by the Authority on the date of issuance of the 2016B Bonds, including any and all exhibits attached thereto.

Trustee. The term “Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture as provided in the Indenture.

2016B Bonds. The term “2016B Bonds” means the Water and Wastewater Revenue Bonds, Series 2016B issued by the Authority and at any time Outstanding pursuant to the Indenture.

Valuation Date. “Valuation Date” means the fifth Business Day preceding the date of redemption.

Value. The term “Value” which will be determined as of the end of each month, means that the value of any investments will be calculated as follows: (a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund will be valued at fair market value. The Trustee will determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch and Morgan Stanley Smith Barney. (b) As to certificates of deposit and bankers’ acceptances, the face amount thereof, plus accrued interest. (c) As to any investment not specified above, the value thereof established by prior agreement between the Authority and the Trustee.

Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture except the certificate of destruction provided for therein, with respect to compliance with any provision of the Indenture will include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions therein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the Authority may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Accountant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Accountant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority) upon a certificate or opinion of or representation by an officer of the Authority, unless such counsel or Accountant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person’s certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the Authority, or the same counsel or Accountant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Indenture, but different officers, counsel or Accountants may certify to different matters, respectively.

THE 2016B BONDS

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2016B Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the Authority, the District and the Owners; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2016B Bonds as provided in the Indenture. The person in whose name any 2016B Bond is registered will be deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest on and principal and Redemption Price of by such 2016B Bonds will be made only to or upon the order in writing of such registered Owner, which payments will be valid and effectual to satisfy and discharge liability upon such 2016B Bond to the extent of the sum or sums so paid.

2016B Bonds Mutilated, Lost, Destroyed or Stolen. If any 2016B Bond becomes mutilated, the Authority, at the expense of the Owner of said 2016B Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2016B Bond of like tenor, series and authorized denomination in exchange and substitution for the 2016B Bonds so mutilated, but only upon surrender to the Trustee of the 2016B Bond so mutilated. Every mutilated 2016B Bond so surrendered to the Trustee will be canceled by it and destroyed in accordance with the Indenture. If any 2016B Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the

Trustee and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new 2016B Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2016B Bond so lost, destroyed or stolen (or if any such 2016B Bond has matured or will be about to mature, instead of issuing a substitute 2016B Bond, the Trustee may pay the same without surrender thereof). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2016B Bond issued under the Indenture and of the expenses which may be incurred by the Authority and the Trustee in the premises. Any 2016B Bond issued under the provisions of the Indenture in lieu of any 2016B Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the 2016B Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other 2016B Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2016B Bond for a 2016B Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may make payment of such 2016B Bond upon receipt of indemnity satisfactory to the Trustee.

Book-Entry System.

(a) Election of Book-Entry System. Prior to the issuance of the 2016B Bonds, the Authority may provide that such 2016B Bonds will be initially issued as book-entry 2016B Bonds. If the Authority elects to deliver any 2016B Bonds in book-entry form, then the Authority will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2016B Bonds in an authorized denomination corresponding to that total principal amount of the 2016B Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2016B Bond will be registered in the 2016B Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2016B Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book-entry 2016B Bonds, the Authority and the Trustee have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry 2016B Bonds. Without limiting the immediately preceding sentence, the Authority and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry 2016B Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2016B Bond Registration Books, of any notice with respect to book-entry 2016B Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry 2016B Bonds to be redeemed in the event that the Authority redeems the 2016B Bonds in part; or (iv) the payment by the Depository or any Participant or any other person of any amount of principal of, premium, if any, or interest on book-entry 2016B Bonds. The Authority and the Trustee may treat and consider the person in whose name each book-entry 2016B Bond is registered in the 2016B Bond Registration Books as the absolute Owner of such book-entry 2016B Bond for the purpose of payment of principal of, premium and interest on such 2016B Bond, for the purpose of giving notices of redemption and other matters with respect to such 2016B Bond, for the purpose of registering transfers with respect to such 2016B Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2016B Bonds only to or upon the order of the respective Owner, as shown in the 2016B Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the Authority's obligations with respect to payment of principal of, premium, if any, and interest on the 2016B Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2016B Bond Registration Books, will receive a 2016B Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2016B Bonds. Upon delivery by the Depository to the Authority and the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture will refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book-entry 2016B Bonds for the Depository's book-entry system, the Authority and the Trustee will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations will not in any way impose upon the Authority or the Trustee any obligation whatsoever with respect to persons having interests in such book-entry 2016B Bonds other than the Owners, as shown on the 2016B Bond Registration Books. By executing a Letter

of Representations, the Trustee will agree to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the Authority and the Trustee will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book-entry 2016B Bonds for the Depository's book-entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book-entry 2016B Bonds; or (ii) the Authority determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the 2016B Bonds or the Authority, then the Authority will discontinue the book-entry system with the Depository. If the Authority determines to replace the Depository with another qualified securities depository, the Authority will prepare or direct the preparation of a new single, separate, fully registered 2016B Bond for each of the maturity dates of such book-entry 2016B Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in the Indenture. If the Authority fails to identify another qualified securities depository to replace the Depository, then the 2016B Bonds will no longer be restricted to being registered in such 2016B Bond Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such 2016B Bonds designates, in accordance with the provisions of the Indenture.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding 2016B Bonds are held in book-entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such 2016B Bond and all notices with respect to such 2016B Bond will be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of 2016B Bonds to Substitute Depository. (i) The 2016B Bonds will be initially issued as provided in the Indenture. Registered ownership of such 2016B Bonds, or any portions thereof, may not thereafter be transferred except: (A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) below ("Substitute Depository"); provided that any successor of DTC or Substitute Depository will be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the Authority that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository will be qualified under any applicable laws to provide the services proposed to be provided by it; or (C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the Authority that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) above, upon receipt of all Outstanding 2016B Bonds by the Trustee, together with a written request of the Authority to the Trustee designating the Substitute Depository, a single new 2016B Bond, which the Authority will prepare or cause to be prepared, will be issued for each maturity of 2016B Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the Authority. In the case of any transfer pursuant to clause (C) above, upon receipt of all Outstanding 2016B Bonds by the Trustee, together with a written request of the Authority to the Trustee, new 2016B Bonds, which the Authority will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such written request of the Authority, subject to the limitations of the Indenture, provided that the Trustee will not be required to deliver such new 2016B Bonds within a period of less than 60 days from the date of receipt of such written request from the Authority.

(iii) In the case of a partial redemption or an advance refunding of any 2016B Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2016B Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee will not be liable for such Depository's failure to make such notations or errors in

making such notations and the records of the Trustee as to the outstanding principal amount of such 2016B Bonds will be controlling.

(iv) The Authority and the Trustee are entitled to treat the person in whose name any 2016B Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the Authority; and the Authority and the Trustee have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2016B Bonds. Neither the Authority nor the Trustee have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2016B Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2016B Bonds.

ISSUANCE OF 2016B BONDS; APPLICATION OF PROCEEDS

Validity of 2016B Bonds. The validity of the authorization and issuance of the 2016B Bonds is not dependent on and will not be affected in any way by any proceedings taken by the Authority, the District or the Trustee with respect to or in connection with the Installment Purchase Agreement. The recital contained in the 2016B Bonds that the same are issued pursuant to the Constitution and laws of the State are conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment; Revenue Fund. The Authority, for good and valuable consideration in hand received, has irrevocably assigned and transferred to the Trustee without recourse, for the benefit of the Owners of the 2016B Bonds as set forth in the Indenture, all of its rights, title, and interest in all Installment Payments payable by the District pursuant to the Installment Purchase Agreement, including all rights of the Authority thereunder as may be necessary to enforce compliance with said provisions (including enforcement of payment obligations and rate covenants, if any, contained in the Installment Purchase Agreement, or otherwise to protect the interest of the Owners of the 2016B Bonds. Such assignment will be subject to and limited by the terms of the Indenture.

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, which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement. Such investments will be directed by the Authority pursuant to a Request of the Authority filed with the Trustee at least two (2) 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 Authority, the Trustee will invest any such moneys in Permitted Investments described in clause (ii)(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 (except for interest or gain derived from the Permitted Investment described in clause (ii)(8) of the definition thereof, which will be retained in such Permitted Investment) will be deposited in the 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) held by it thereunder upon the Request of the Authority. 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 Indenture.

The Trustee will furnish the Authority periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the Authority. Upon the Authority'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 Authority waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The Authority further understands

that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

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 Authority 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.

Rebate Fund.

(a) Establishment. The Trustee will establish a separate fund designated the "Rebate Fund" when required in accordance with the Indenture. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the 2016B Bonds will not be adversely affected, the Authority 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 2016B Bonds will be governed by the Indenture and the Tax Certificate for the 2016B Bonds, unless and to the extent that the Authority delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the 2016B 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: (i) will be deemed conclusively to have complied with the provisions thereof if it follows all Requests of the Authority; and (ii) will have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate; and (iii) may rely conclusively on the Authority's calculations and determinations and certifications relating to rebate matters; and (iv) will have no responsibility to independently make any calculations or determinations or to review the Authority'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 Authority 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 (the "1½% Penalty") 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 Authority will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the written Request of the Authority, an amount will be deposited to the Rebate Fund by the Trustee from any Authority Revenues legally available for such purpose (as specified by the Authority in the aforesaid written Request), if and to the extent required so that the balance in the Rebate Fund will equal 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 Authority, the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the Revenue Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Request of the Authority, 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 Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all the 2016B Bonds, an amount equal to 100% of the Rebatale Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatale 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 Authority 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 Indenture 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 Authority), 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 2016B Bonds and the payments described in clause (a) above being made may be withdrawn by the Authority and utilized in any manner by the Authority.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture will survive the defeasance or payment in full of the 2016B Bonds.

Application of Funds and Accounts When No 2016B Bonds are Outstanding. On the date on which all 2016B Bonds are retired under the Indenture or provision made therefor pursuant to the Indenture and after payment of all amounts due the Trustee thereunder, 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 Authority for distribution in accordance with the Installment Purchase Agreement.

PARTICULAR COVENANTS

Punctual Payment. The Authority will punctually pay or cause to be paid the principal and interest to become due in respect of all of the 2016B Bonds, in strict conformity with the terms of the 2016B Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Authority Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of 2016B Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the 2016B Bonds or the time of payment of any claims for interest by the purchase of such 2016B Bonds or by any other arrangement, and in case the maturity of any of the 2016B Bonds or the time of payment of any such claims for interest will be extended, such 2016B Bonds or claims for interest will not be 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 2016B Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Indenture limits the right of the Authority to issue 2016B Bonds for the purpose of refunding any Outstanding 2016B Bonds, and such issuance will not be deemed to constitute an extension of maturity of 2016B Bonds.

Against Encumbrances. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrances upon the Authority Revenues and other assets pledged or assigned under the Indenture while any of the 2016B Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to the foregoing limitation, the Authority has expressly reserved the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Joint Exercise of Powers Agreement, and has reserved the right to issue other obligations for such purposes.

Power to Issue 2016B Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the 2016B Bonds, to enter into the Indenture and to pledge and assign the Authority 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 2016B Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority 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 Authority Revenues and other assets and all the rights of the 2016B Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. 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 will be made of all transactions made by it relating to the proceeds of 2016B Bonds, the Authority Revenues 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 Authority and the District upon reasonable prior notice during business hours and under reasonable circumstances.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of the interest on the 2016B Bonds will not be adversely affected for federal income tax purposes, the Authority has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the 2016B Bonds and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The Authority will take no action, refrain from taking any action and make no use of the proceeds of the 2016B Bonds or of any other moneys or property that would cause the 2016B Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The Authority will make no use of the proceeds of the 2016B Bonds or of any other amounts or property, regardless of the source, and will not take or omit any action, that would cause the 2016B Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The Authority will make no use of the proceeds of the 2016B Bonds and not take or omit to take any action that would cause the 2016B Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The Authority will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code that are necessary to preserve the exclusion of interest on the 2016B Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The Authority will make no use of the proceeds of the 2016B Bonds or any other amounts or property, regardless of the source, and will not take any action or refrain from taking any action that would cause the 2016B Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the Authority 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 2016B Bonds for federal income tax purposes; and

(f) Miscellaneous. The Authority will take no action, and will not omit to take any action, that is inconsistent with its expectations stated in that certain Tax Certificate executed by the Authority in connection with the issuance of the 2016B Bonds, and the Authority will comply with the covenants and requirements that are stated therein and incorporated by reference in the Indenture.

The foregoing tax covenants are not applicable to, and nothing contained therein prevents the Authority from issuing revenue bonds other than the 2016B Bonds or to execute and deliver contracts payable on a parity with the 2016B Bonds, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Payments Under Installment Purchase Agreement. The Authority will promptly collect all Installment Payments due from the District pursuant to the Installment Purchase Agreement and, subject to the provisions of the Indenture, will enforce, and take all steps, actions and proceedings which the Authority or the Trustee determines to be reasonably necessary for the enforcement of all of the obligations of the District thereunder.

The Authority will not enter into any amendments to the Installment Purchase Agreement except as permitted therein. The Trustee will give written consent only if: (a) such amendment, modification or termination will not materially adversely affect the interests of the 2016B Bond Owners; or (b) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the 2016B Bonds then Outstanding to such amendment, modification or termination.

Waiver of Laws. The Authority 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 2016B Bonds, and all benefit or advantage of any such law or laws has been expressly waived by the Authority to the extent permitted by law.

Further Assurances. The Authority 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 Indenture and for the better assuring and confirming unto the Owners of the 2016B Bonds of the rights and benefits provided in the Indenture.

Eminent Domain. If all or any part of the 2008H Project is taken by eminent domain proceedings (or sold to a government entity threatening to exercise the power of eminent domain), the Net Proceeds therefrom will be applied in the manner specified in the Installment Purchase Agreement.

Observance of Laws and Regulations. To the extent necessary to assure its performance under the Indenture, the Authority will keep, observe and perform all valid and lawful obligations or regulations now or later imposed on the Authority 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 Authority, 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.

EVENTS OF DEFAULT AND REMEDIES OF 2016B BOND OWNERS

Events of Default. The following events will be Events of Default under the Indenture: (a) Default by the Authority in the due and punctual payment of the principal of any 2016B Bonds when and as the same becomes due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise. (b) Default by the Authority in the due and punctual payment of any installment of interest on any 2016B Bonds when and as the same becomes due and payable. (c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the 2016B Bonds, 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 Authority by the Trustee or by the Owners of not less than a majority in aggregate principal amount of 2016B Bonds Outstanding; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such 60 day period, and corrective action is instituted by the Authority 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.

The Authority 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 a court of competent jurisdiction approves a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the Authority or of the whole or any substantial part of its property.

Remedies Upon Event of Default. If any Event of Default occurs and is continuing, the Trustee may, and, at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2016B Bonds at the time Outstanding, will, in each case except an Event of Default specified in the Indenture, upon notice in writing to the Authority: (a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the Authority or any director, officer or employee of the Authority, and compel the Authority or any such

director, officer or employee of the Authority to observe or perform its duties under applicable law and the agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by it; (b) by suit in equity 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 require the Authority and the directors, officers and employees of the Authority 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 2016B Bonds. Nothing contained in the Indenture permits or requires the Trustee or the Authority to accelerate payments due under the Installment Purchase Agreement.

Application of Authority Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Authority 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: (i) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the 2016B 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; and (ii) To the payment of the principal of and interest then due on the 2016B Bonds (upon presentation of the 2016B 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, in the following order of priority: First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount that is available is 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 2016B Bonds which have become due, whether at maturity or redemption, with interest on the overdue principal at the rate of 8% per annum, and, if the amount that is available is not sufficient to pay in full all the 2016B Bonds, 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; and Third: If there exists any remainder after the foregoing payments, such remainder will be paid to the Authority.

Trustee to Represent 2016B Bond Owners. The Trustee has been irrevocably appointed (and the successive respective Owners of the 2016B Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2016B Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the 2016B Bonds or the Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2016B Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the 2016B Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the 2016B Bonds or the Indenture or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Authority Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2016B Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2016B Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Owners of such 2016B Bonds, subject to the provisions of the Indenture.

2016B Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2016B Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction to direct the method of conduct in all remedial proceedings taken by the Trustee thereunder, provided that such direction will not be otherwise than in accordance with law and the

provisions of the Indenture, and that the Trustee has the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to 2016B Bond Owners not parties to such direction.

Suit by Owners. No Owner of any 2016B Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Purchase Agreement, the Joint Exercise of Powers Agreement or any other applicable law with respect to such 2016B Bonds, unless: (a) such Owners have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than 25% in aggregate principal amount of the 2016B Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction that is 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 2016B Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are, in every case, conditions precedent to the exercise by any Owner of 2016B Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2016B Bonds have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2016B Bonds, or to enforce any right under the 2016B Bonds, the Indenture, the Installment Purchase Agreement, the Joint Exercise of Powers Agreement or other applicable law with respect to the 2016B Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding 2016B Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the Authority. Nothing in in the Indenture or in the 2016B Bonds affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the 2016B Bonds to the respective Owners of the 2016B Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Authority Revenues and other assets therein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2016B Bonds.

Remedies Not Exclusive. No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners of the 2016B Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given under the Indenture or now or later existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2016B Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee. (a) The Trustee will, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture, and no implied covenants or duties will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Authority may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2016B Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with the Indenture, or becomes incapable of acting, or is adjudged a bankrupt or

insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon will promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and by giving the 2016B Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and has accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any 2016B Bond Owner (on behalf of himself and all other 2016B Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Request of the Authority or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all of the right, title and interest of such predecessor Trustee in and to any property that is held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property that is subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Authority will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Authority will mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts thereunder to each rating agency which is then rating the 2016B Bonds and to the 2016B Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the Authority.

(e) Any Trustee that is appointed under the provisions of the Indenture in succession to the Trustee will be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination for federal or state authority. If such bank, 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 purpose of the Indenture the combined capital and surplus of such trust company, banking association or bank will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified in the Indenture.

Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated, any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it will be a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank will be eligible under the Indenture, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee. (a) The recitals of facts in the Indenture and in the 2016B Bonds are statements of the Authority, and the Trustee does not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture, the 2016B Bonds or the Installment Purchase Agreement, nor will the Trustee incur any responsibility in respect thereof, other than as expressly stated in the

Indenture in connection with the respective duties or obligations therein or in the 2016B Bonds that are assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the 2016B Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2016B Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2016B Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2016B Bonds then Outstanding.

(b) The Trustee will not be liable for any error of judgment made in good faith by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be 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 (or such other percentage provided for in the Indenture) in aggregate principal amount of the 2016B Bonds at the time 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.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any default or Event of Default under the Indenture or under the Installment Purchase Agreement or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture or under the Installment Purchase Agreement unless and until a Responsible Officer of the Trustee has actual knowledge of such event or the Trustee has been notified in writing, in accordance with the Indenture, of such event by the Authority or the Owners of not less than 25% of the 2016B Bonds then Outstanding. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the Authority or the District of any of the terms, conditions, covenants or agreements therein, or under the Installment Purchase Agreement, of any of the documents executed in connection with the 2016B Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) 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 its duties thereunder, or in the exercise of any of its rights or powers.

(g) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of Owners pursuant to the Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee thereunder will be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly so provided in the Indenture, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture.

(i) 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 2016B Bonds.

(j) The immunities that are extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and will not be answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the 2008H Project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee has agreed to accept and act upon instructions or directions pursuant to the Indenture that are sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, for purposes of the Indenture, an e-mail does not constitute a notice, request or other communication thereunder but rather the portable document format or similar attachment attached to such e-mail will constitute a notice, request or other communication thereunder; and provided further that the Trustee has received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures 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 Authority 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 will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written instruction. The Authority 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.

(n) The Trustee is not concerned with or accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

(o) The permissive right of the Trustee to do things enumerated in the Indenture are not construed as a duty and it is not answerable for other than its negligence or willful misconduct.

Right to Rely on Documents. The Trustee will be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action that is taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2016B Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2016B Bonds for all purposes and the Trustee will not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by 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, Request or Requisition of the Authority, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action that is taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, 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.

Preservation and Inspection of Documents. All documents that are received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject at all reasonable times to the inspection of the Authority, the District and any 2016B Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The Authority will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The Authority will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust, under the Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Indenture. The rights of the Trustee and the obligations of the Authority under the Indenture survive removal or resignation of the Trustee thereunder or the discharge of the 2016B Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted. (a) The Indenture and the rights and obligations of the Authority and of the Owners of the 2016B Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all 2016B Bonds then Outstanding, exclusive of 2016B Bonds disqualified as provided in the Indenture, has been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any 2016B Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each 2016B Bond so affected; or (2) reduce the aforesaid percentage of 2016B Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Authority Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted therein, or deprive the Owners of the 2016B Bonds of the lien created by the Indenture on such Authority Revenues and other assets except as permitted therein, without the consent of the Owners of all of the 2016B Bonds then Outstanding. It is not necessary for the consent of the 2016B Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to the Indenture, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2016B Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the Authority, the Trustee and the Owners of the 2016B Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any 2016B Bond Owners, if the Trustee receives an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners of the Outstanding 2016B Bonds, including, without limitation, for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority that are contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2016B Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority; (2) 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 Authority may deem necessary or desirable; (3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereunder in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute; and (4) to modify, amend or supplement

the Indenture in such manner as to cause interest on the 2016B Bonds to remain excludable from gross income under the Code.

(c) The Trustee may in its discretion, but is not obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2016B Bonds from federal income taxation and from state income taxation.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of 2016B Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all of 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.

Endorsement of 2016B Bonds; Preparation of New 2016B Bonds. 2016B Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Trustee so determines will, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2016B Bonds Outstanding at the time of such execution and presentation of his or her 2016B Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation will be made on such 2016B Bonds. If the Supplemental Indenture so provides, new 2016B Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any 2016B Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any 2016B Bond Owner, for 2016B Bonds then Outstanding, upon surrender for cancellation of such 2016B Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular 2016B Bonds. The provisions of the Indenture do not prevent any 2016B Bond Owner from accepting any amendment as to the particular 2016B Bonds held by him.

DEFEASANCE

Discharge of Indenture. The 2016B Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority: (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the 2016B Bonds, as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem all 2016B Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all of the 2016B Bonds then Outstanding.

If the Authority also pays or causes to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (as evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any 2016B Bonds have not been surrendered for payment, the Indenture and the pledge of Authority Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Request of the Authority, the Trustee will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which

are not required for the payment or redemption of 2016B Bonds not theretofore surrendered for such payment or redemption to the Authority.

Discharge of Liability on 2016B Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding 2016B Bonds (whether upon or prior to the maturity or the redemption date of such 2016B Bonds), provided that, if such Outstanding 2016B Bonds are to be redeemed prior to maturity, notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee has been made for the giving of such notice, then all liability of the Authority in respect of such 2016B Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any 2016B Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such 2016B Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any 2016B Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2016B Bonds and all unpaid interest thereon to maturity, except that, in the case of 2016B Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held will be the principal amount of such 2016B Bonds and all unpaid interest and premium, if any, thereon to the redemption date; or

(b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Accountant filed with the Authority and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the redemption date (with premium, if any), as the case may be, on the 2016B Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 2016B Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that: (i) the Trustee has been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2016B Bonds; and (ii) the Authority has delivered to the Trustee an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that such 2016B Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Accountant's opinion referred to above).

Payment of 2016B Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2016B Bonds and remaining unclaimed for two (2) years after the principal of all of the 2016B Bonds has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the 2016B Bonds became due and payable, will be repaid to the Authority free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Authority and the Trustee indemnifying the Trustee with respect to claims of Owners of 2016B Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee will at the written direction of the Authority (at the cost of the Authority) first mail to the Owners of 2016B Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the 2016B Bonds so

payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

MISCELLANEOUS

Liability of Authority Limited to Authority Revenues. Notwithstanding anything in the Indenture or the 2016B Bonds, the Authority is not required to advance any moneys derived from any source other than the Authority Revenues and other moneys pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the 2016B Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but will not be required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

The 2016B Bonds are not a debt of the members of the Authority, the State or any of its political subdivisions (other than the Authority) and neither the members of the Authority, said State nor any of its political subdivisions (other than the Authority) is liable in the Indenture. The District has no liability or obligation in the Indenture except with respect to Installment Payments payable under the Installment Purchase Agreement.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the Authority or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all of the covenants and agreements contained in the Indenture by or on behalf of the Authority or the Trustee bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and 2016B Bond Owners. Nothing in the Indenture or in the 2016B Bonds expressed or implied is intended or will be construed to give to any person other than the Authority, the Trustee, the District and the Owners of the 2016B Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the Authority, the Trustee, the District and the Owners of the 2016B Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice is required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of 2016B Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any 2016B Bonds, the Trustee will destroy such 2016B Bonds as may be allowed by law, and deliver a certificate of such destruction to the Authority.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2016B Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained therein. The Authority has declared that it would have entered into the Indenture and each and every other section, paragraph, sentence, clause or phrase thereof and authorized the issuance of the 2016B Bonds pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of 2016B Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2016B Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 2016B Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 2016B Bonds transferable

by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the Authority if made in the manner provided in the Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer. The Ownership of 2016B Bonds will be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any 2016B Bond will bind every future Owner of the same 2016B Bond and the Owner of every 2016B Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Disqualified 2016B Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2016B Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2016B Bonds which are known by the Trustee to be owned or held by or for the account of the Authority, or by any other obligor on the 2016B Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other obligor on the 2016B Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2016B Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such 2016B Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other obligor on the 2016B Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request, the Authority will certify to the Trustee those 2016B Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Money Held for Particular 2016B Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2016B Bonds (or portions of 2016B Bonds in the case of registered 2016B Bonds redeemed in part only) 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 of the 2016B Bonds entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Funds and Accounts. Any fund or account that is required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the 2016B Bonds and the rights of every Owner thereof.

Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the Authority or the District will be individually or personally liable for the payment of the principal of or premium or interest on the 2016B Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture relieves any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

CUSIP Numbers. Neither the Trustee nor the Authority are liable for any defect or inaccuracy in the CUSIP number that appears on any 2016B Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the 2016B Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2016B Bondholders and that neither the Authority nor the Trustee are liable for any inaccuracies in such numbers.

Choice of Law. THE INDENTURE IS GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

Notice to Rating Agencies. The Trustee will provide any rating agency rating the 2016B Bonds with written notice of each amendment to the Indenture and a copy thereof at least 15 days in advance of its execution.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the 2016B Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

September 14, 2016

Eastern Municipal Water District Financing Authority
c/o Eastern Municipal Water District
2270 Trumble Road
P.O. Box 8300
Perris, California 92572-8300

Re: \$124,925,000 Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2016B

Members of the Board of Directors:

We have acted as Bond Counsel to the Eastern Municipal Water District Financing Authority (the "Authority") in connection with the issuance of \$124,925,000 aggregate principal amount of Eastern Municipal Water District Financing Authority Water and Wastewater Revenue Bonds, Series 2016B (the "Bonds"). The Bonds have been issued by the Authority pursuant to the terms of the Indenture of Trust, dated as of September 1, 2016 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

The Bonds are limited obligations of the Authority payable solely from payments (the "Installment Payments") to be made by the Eastern Municipal Water District (the "District") to the Authority pursuant to an Installment Purchase Agreement, dated as of September 1, 2016 (the "Installment Purchase Agreement"), by and between the District and the Authority, and from certain funds and accounts established under the Indenture.

In connection with our representation we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings of the Authority show lawful authority for the issuance and sale by the Authority of the Bonds under the laws of the State of California (the "State") now in force, and the Indenture and the Installment Purchase Agreement have been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the Bonds, the Indenture and the Installment Purchase Agreement are valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

2. The obligation of the District to make the Installment Payments from Net Revenues (as such term is defined in the Installment Purchase Agreement) is an enforceable obligation of the District and does not constitute a debt of the District, or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limit or restriction, and does not constitute an obligation

for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

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 (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Bond Owner will increase the Bond Owner's basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the owner of the Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by the District and the Authority and are subject to the condition that the District and the Authority comply with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the 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 (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority has covenanted to comply with all such requirements.

The opinions 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 Bonds terminates on the date of their issuance. The Indenture, the Installment Purchase Agreement and the Tax Certificate relating to the 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 (and original issue discount) on the Bonds for federal income tax purposes 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 Bonds.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, 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, the Installment Purchase Agreement and the 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.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX E

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority, the District and the Underwriters believe to be reliable, but neither the Authority, the District nor the Underwriters takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2016B Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2016B Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2016B 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 2016B Bonds. The 2016B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond will be issued for each annual maturity of the 2016B Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2016B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2016B 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 2016B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2016B Bonds, except in the event that use of the book-entry system for the 2016B Bonds is discontinued.

To facilitate subsequent transfers, all 2016B 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 2016B 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 2016B Bonds; DTC's records reflect only the identity of the Direct

Participants to whose accounts such 2016B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2016B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2016B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2016B Bond documents. For example, Beneficial Owners of 2016B Bonds may wish to ascertain that the nominee holding the 2016B 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 2016B 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 2016B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2016B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2016B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A 2016B Bond Owner shall give notice to elect to have its 2016B Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2016B Bonds by causing the Direct Participant to transfer the Participant's interest in the 2016B Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2016B Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2016B Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2016B Bonds to the Trustee's DTC account. DTC may discontinue providing its services as depository with respect to the 2016B Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2016B BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2016B BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2016B Bonds, the District proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Eastern Municipal Water District (the “District”) in connection with the issuance of the \$124,925,000 Eastern Municipal Water District Financing Authority Refunding Water and Wastewater Revenue Bonds, Series 2016B (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2016 (the “Indenture”), by and between U.S. Bank National Association, as trustee, and the Eastern Municipal Water District Financing Authority. 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/>.

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 August 24, 2016 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 2016) 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 4;”

(ii) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—District Water Facilities—Table 6;”

(iii) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Production—Tables 7, 8 and 9;”

(iv) Appendix A under the caption “WATER RESOURCES, FACILITIES AND USAGE—Water Sales and Deliveries—Table 10;”

(v) Appendix A under the caption “WASTEWATER AND RECYCLED WATER FACILITIES AND USAGE—Wastewater Facilities—Table 11;”

(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 19.”

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; and
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.

(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; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

(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(c).

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: September 14, 2016

EASTERN MUNICIPAL WATER DISTRICT

By: _____
Its: General Manager