

NEW ISSUE  
(BOOK-ENTRY-ONLY SYSTEM)

S&P: AAA  
Moody's: Aaa  
Fitch: AAA  
See "Ratings" herein.

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to IBank, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2019 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2019 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In addition, in the opinion of Bond Counsel to IBank, under existing statutes, interest on the Series 2019 Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

\$85,655,000\*



**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK  
CLEAN WATER AND DRINKING WATER STATE REVOLVING  
FUND REVENUE BONDS SERIES 2019 (GREEN BONDS)**



**Dated: Date of Issuance**

**Due: October 1, as shown on the inside front cover**

The California Infrastructure and Economic Development Bank ("IBank") is issuing its \$85,655,000\* Clean Water and Drinking Water State Revolving Fund Revenue Bonds Series 2019 (Green Bonds) (the "Series 2019 Bonds") pursuant to an Amended and Restated Master Trust Indenture, dated as of April 1, 2019, by and between the California Infrastructure and Economic Development Bank (the "IBank") and the Treasurer of the State of California, as Trustee (the "Trustee") (the "Master Trust Indenture") and a Series 2019 Indenture, dated as of April 1, 2019, by and between IBank and the Trustee (the "Series Indenture" and, together with the Master Trust Indenture, the "Indenture") for the purpose of financing a portion of the California Safe Drinking Water State Revolving Fund Program administered by the State Water Board to provide financial assistance to local governments for safe drinking water projects. The payment of principal, premium, if any, and interest on the Series 2019 Bonds are secured by payments made under the Amended and Restated Master Payment and Pledge Agreement, dated as of April 1, 2019, by and between the State Water Resources Control Board (the "State Water Board") and IBank (the "Master Payment and Pledge Agreement"). Additional Bonds on a parity with the Series 2019 Bonds and IBank's currently Outstanding Bonds may be issued in accordance with the Master Trust Indenture.

The Series 2019 Bonds will mature in the principal amounts in the years, and will bear interest at the respective rates of interest per annum, as set forth on the inside cover page hereof. IBank will pay interest on the Series 2019 Bonds on April 1 and October 1 of each year, commencing October 1, 2019. The Series 2019 Bonds will be delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2019 Bonds. Individual purchases of the Series 2019 Bonds will be made in book-entry form only. Purchasers of the Series 2019 Bonds will not receive certificates representing their ownership interests in the Series 2019 Bonds purchased. Principal and interest payments represented by the Series 2019 Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2019 Bonds. See Appendix G – "Book-Entry-Only System" attached hereto.

The Series 2019 Bonds are subject to redemption prior to their maturity as set forth herein.

Bonds (as defined herein), including the Series 2019 Bonds, are special limited obligations of IBank, generally payable from and secured by a pledge of the Pledged Assets which consist primarily of Pledged Revenues derived from the Pledged Project Obligations. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS" herein. The Series 2019 Bonds do not constitute a debt or liability of the State or any political subdivision thereof, but are limited obligations of IBank and the State Water Board that are payable solely from Pledged Assets. Neither the State, IBank, nor the State Water Board shall be obligated to pay the principal of, or interest on, the Bonds, except from the funds provided therefor under the Master Payment and Pledge Agreement and the Indenture, and neither the faith and credit nor the taxing power of the State, IBank, the State Water Board, or of any political subdivision thereof is pledged to the payment of the principal of, or interest on, the Series 2019 Bonds. The issuance of the Series 2019 Bonds shall not directly, indirectly, or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation. Neither IBank nor the State Water Board has any taxing power.

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2019 Bonds will be offered when, as and if executed, delivered, and received by the Underwriters, subject to the approval as to their legality by Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to IBank, and certain other conditions. Certain matters with respect to the Official Statement will be passed on by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel to IBank. Certain legal matters will be passed upon for IBank by General Counsel to IBank, for the State Water Board by Chief Counsel to the State Water Board, and for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Los Angeles, California. It is anticipated that the Series 2019 Bonds will be available through the facilities of DTC on or about May \_\_, 2019.

**PIPER JAFFRAY & CO.  
BACKSTROM MCCARLEY BERRY & CO., LLC  
BLAYLOCK VAN, LLC  
RAMIREZ & CO., INC.**

**MORGAN STANLEY  
GEORGE K. BAUM & COMPANY  
MISCHLER FINANCIAL GROUP, INC.  
THE WILLIAMS CAPITAL GROUP, L.P.**

Dated: April \_\_, 2019

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

**\$85,655,000\***  
**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK**  
**CLEAN WATER AND DRINKING WATER STATE REVOLVING**  
**FUND REVENUE BONDS SERIES 2019 (GREEN BONDS)**

**MATURITY SCHEDULE**

<b>Initial CUSIP** (13034A)</b>	<b>Due (October 1)</b>	<b>Principal Amount*</b>	<b>Interest Rate</b>	<b>Yield</b>
	2019	\$3,180,000		
	2020	5,660,000		
	2021	5,890,000		
	2022	6,195,000		
	2023	6,515,000		
	2024	6,495,000		
	2025	6,505,000		
	2026	6,185,000		
	2027	6,545,000		
	2028	6,785,000		
	2029	6,725,000		
	2030	6,000,000		
	2031	4,305,000		
	2032	3,115,000		
	2033	2,100,000		
	2034	2,100,000		
	2035	1,355,000		

\*\*CUSIP data, copyright, American Bankers Association. CUSIP data herein are set forth herein for convenience of reference only. None of IBank, the State Water Board or the Underwriters assume any responsibility for the accuracy of such data.

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\* Preliminary, subject to change.

This Official Statement, which includes the cover page, inside cover page, and appendices hereto, does not constitute an offer to sell the Series 2019 Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson, or other person has been authorized by IBank, the State Water Board, or the Underwriters to give any information or to make any representations, other than those contained herein, in connection with the offering of the Series 2019 Bonds and, if given or made, such information or representations must not be relied upon.

The information set forth in the Section entitled “THE INFRASTRUCTURE BANK” has been obtained from IBank. All other information set forth herein has been obtained from the State Water Board and other sources that are believed to be current and reliable, but the accuracy or completeness of such information has not been independently verified by, is not guaranteed by, and is not to be construed as a representation by, IBank. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made pursuant hereto shall, under any circumstances, create any implication that there has been no change in the affairs of IBank or the State Water Board or the information herein pertaining to the SRFs since the date hereof.

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 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.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2019 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

Certain statements included or incorporated by reference in this Official Statement constitute projections or “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States 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,” “budget,” or other similar words. Such statements include, but are not limited to, certain statements contained in the information under the captions “THE STATE REVOLVING FUND PROGRAMS,” “SECURITY AND SOURCE OF PAYMENT FOR BONDS,” “CASH FLOW SCHEDULE,” “THE RECIPIENTS,” and the statements contained in APPENDIX A — “PLEDGED PROJECT OBLIGATIONS” to this Official Statement.

The achievement of certain results or other expectations contained in such projections or forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such projections or forward-looking statements. The State Water Board takes no responsibility for, and the State Water Board does not plan to issue, any updates or revisions to those projections or forward-looking statements if or when its expectations, or events, conditions, or circumstances on which such statements are based, change.

Neither the information on websites referred to herein, nor any other information on the State Water Board’s website, is incorporated herein by this reference.

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# **CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK**

## **BOARD OF DIRECTORS**

Lenny Mendonca  
Director of the Governor's Office of Business and Economic Development  
*Chair*

Fiona Ma  
Treasurer of the State of California  
*Member*

Brian Annis  
Secretary of the Transportation Agency  
*Member*

Keely Bosley  
Director of the Department of Finance  
*Member*

Marc Steinorth  
Governor's Appointee  
*Member*

## **STATE WATER RESOURCES CONTROL BOARD**

E. Joaquin Esquivel  
*Chair*

Dorene D'Adamo  
*Vice Chair*

Tam M. Doduc  
*Member*

Sean Maguire  
*Member*

Laurel Firestone  
*Member*

Eileen Sobeck  
*Executive Director*

## **Division of Financial Assistance**

Leslie Laudon  
*Deputy Director*

James Maughan  
*Assistant Deputy Director*

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## OFFICIAL STATEMENT

\$85,655,000\*

California Infrastructure and Economic Development Bank  
Clean Water and Drinking Water State Revolving  
Fund Revenue Bonds Series 2019 (Green Bonds)

### INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, provides certain information concerning \$85,655,000\* original principal amount of Clean Water and Drinking Water State Revolving Fund Revenue Bonds Series 2019 (Green Bonds) (the “Series 2019 Bonds”) issued by the California Infrastructure and Economic Development Bank (“IBank”), a public instrumentality of the State of California (the “State”). IBank is organized and existing under Division 1 (commencing with Section 63000) of Title 6.7 of the California Government Code, as amended (the “IBank Act”) and is authorized to issue the Series 2019 Bonds at the request of the State Water Resources Control Board (the “State Water Board”) in connection with the State Water Pollution Control Revolving Fund (“CWSRF”) created by Chapter 6.5 (commencing at Section 13475) of Division 7 of the California Water Code (the “State Clean Water Act”) and the Safe Drinking Water State Revolving Fund (“DWSRF”) created by Chapter 4.5 (commencing at Section 116760) of Division 104 of the California Health and Safety Code (the “State Safe Drinking Water Act”). Capitalized terms used and not otherwise defined herein shall have the meanings set forth in APPENDIX D — “SUMMARY OF THE MASTER TRUST INDENTURE AND THE MASTER PAYMENT AND PLEDGE AGREEMENT.”

The Series 2019 Bonds will be issued and secured pursuant to an Amended and Restated Master Trust Indenture (the “Master Indenture”) and the Series 2019 Indenture, each dated as of April 1, 2019 (the “Series 2019 Indenture” and, collectively with the Master Trust Indenture as further supplemented and amended from time to time, the “Indenture”), each between IBank and the Treasurer of the State of California, as trustee (the “Trustee”). The Bonds heretofore and hereafter issued under the Indenture, including the Series 2019 Bonds (collectively, the “Bonds”), are secured under an Amended and Restated Master Payment and Pledge Agreement, dated as of April 1, 2019, by and between IBank and the State Water Board (the “Master Payment and Pledge Agreement”).

Purpose of Series 2019 Bonds. The Series 2019 Bonds are being issued for the purpose of financing a portion of the DWSRF program administered by the State Water Board to provide financial assistance to local governments for safe drinking water projects. For a description of the Series 2019 Financings, see “ESTIMATED SOURCES AND USES OF FUNDS — Use of Proceeds.”

Security for Series 2019 Bonds. The Bonds, including the Series 2019 Bonds, are limited obligations of IBank, payable from and secured by a pledge under the Master Trust Indenture of the Pledged Assets, consisting of all of IBank’s right, title and interest in and to the Master

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\* Preliminary, subject to change.

Payment and Pledge Agreement (other than Board Reserved Rights and IBank Reserved Rights), the Pledged Revenues, and the funds and accounts established under the Master Trust Indenture (except amounts on deposit in the Rebate Fund). See “SECURITY AND SOURCE OF PAYMENT FOR BONDS” herein.

The Series 2019 Bonds are the first Bonds to be issued to fund projects for the DWSRF. IBank has also issued Bonds to fund projects for the CWSRF. See “OUTSTANDING BONDS AND FUTURE BOND ISSUANCE” for a description of outstanding Bonds issued and Bonds anticipated to be issued by IBank for the DWSRF and the CWSRF.

**The Bonds do not constitute a debt or liability of the State or any political subdivision thereof, but are limited obligations of IBank and the State Water Board that are payable solely from Pledged Assets. Neither the State, IBank, nor the State Water Board shall be obligated to pay the principal of, or interest on, the Bonds, except from Pledged Assets, and neither the faith and credit nor the taxing power of the State, IBank, the State Water Board, or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on, the Series 2019 Bonds. The issuance of the Series 2019 Bonds shall not directly, indirectly, or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation. Neither IBank nor the State Water Board has any taxing power.**

Under the Master Trust Indenture, IBank may establish a Debt Service Reserve Fund Requirement with respect to the Bonds. A Debt Service Reserve Fund Requirement will not be initially established in connection with the issuance of the Series 2019 Bonds. See “SECURITY AND SOURCE OF PAYMENT FOR BONDS — No Debt Service Reserve Fund Requirement for Series 2019 Bonds.”

### State Water Board Programs

CWSRF. Title VI of the Federal Water Pollution Control Act of 1972, as amended (33 U.S.C. Sections 1251 *et seq.*) (the “Federal Clean Water Act”), part of the federal water pollution control program, provides for the creation of water pollution control revolving fund programs. To implement the Federal Clean Water Act, the State established the CWSRF program under the supervision of the State Water Board pursuant to the State Clean Water Act. The State Water Board enters into loan contracts, installment sale agreements, and similar contracts (“CWSRF Project Obligations”) with local governments and other qualified program participants (the “Recipients”) in order to provide low-cost financing for projects and activities permitted under the Federal Clean Water Act and the State Clean Water Act (the “CWSRF Eligible Projects”).

DWSRF. The Safe Drinking Water Act of 1974, as amended (42 U.S.C. § 300 *et seq.*) (the “Federal Safe Drinking Water Act”), provides for the creation of drinking water revolving fund programs. To implement the Safe Drinking Water Act, the State established the DWSRF program (the “DWSRF” and, together with the CWSRF, the “SRFs”) under the supervision of the State Water Board pursuant to the State Safe Drinking Water Act. The State Water Board enters into loan contracts, installment sale agreements, and similar contracts (“DWSRF Project Obligations” and, together with the CWSRF Project Obligations, the “Project Obligations”) with the Recipients in order to provide low-cost financing for projects and activities permitted under

the Federal Safe Drinking Water Act and the Safe Drinking Water Act (the “DWSRF Eligible Projects” and, together with the CWSRF Eligible Projects, the “Eligible Projects”).

See “THE STATE REVOLVING FUND PROGRAMS.”

Role of IBank. IBank serves as a conduit issuer of Bonds for the benefit of the State Water Board. IBank may issue Bonds to provide additional moneys to the State Water Board for the CWSRF that would be used by the State Water Board to fund CWSRF Project Obligations (“CWSRF Bond Funded Project Obligations”) or for the DWSRF that would be used by the State Water Board to fund DWSRF Project Obligations (“DWSRF Bond Funded Project Obligations”) to provide additional funds to Recipients for Eligible Projects. See “THE INFRASTRUCTURE BANK.”

Amendment of Master Trust Indenture. Under certain circumstances IBank may amend the Master Trust Indenture without the consent of Owners for a number of reasons, including to provide for the issuance of Bonds to finance other State programs. See “SECURITY AND SOURCE OF PAYMENT FOR BONDS — Master Indenture Modifications and Change” and APPENDIX D — “SUMMARY OF THE MASTER TRUST INDENTURE AND THE MASTER PAYMENT AND PLEDGE AGREEMENT — Master Trust Indenture and Series 2019 Indenture — Supplemental Indentures Not Requiring Consent of Owners.” The Master Trust Indenture has been amended to permit the issuance of Bonds secured by the Pledged Assets to fund DWSRF Project Obligations.

## **THE INFRASTRUCTURE BANK**

IBank is an entity within the Governor’s Office of Business and Economic Development, organized and existing pursuant to the IBank Act. IBank is authorized and empowered pursuant to the IBank Act to issue the Series 2019 Bonds, to loan the proceeds thereof to the State Water Board, to secure the Series 2019 Bonds by a pledge of the Pledged Assets and to enter into the Master Payment and Pledge Agreement, the Series 2019 Indenture and the Master Trust Indenture pursuant to which the Series 2019 Bonds are to be issued.

IBank is governed by a five-member board of directors consisting of the Director of the Governor’s Office of Business and Economic Development, who serves as Chair, the State Director of the Department of Finance, the State Treasurer, the Secretary of the State Transportation Agency and an appointee of the Governor of the State, or their designee. The directors serve without compensation, provided, however, that the directors may be reimbursed for actual and necessary expenses incurred in the performance of their duties. IBank has no taxing power.

The Bonds, including the Series 2019 Bonds, are limited obligations of IBank and the State Water Board that are payable solely from the Pledged Assets consisting of all of IBank’s right, title and interest in and to the Master Payment and Pledge Agreement (other than Board Reserved Rights and IBank Reserved Rights), the Pledged Revenues, and the funds and accounts established under the Master Trust Indenture (except amounts on deposit in the Rebate Fund).

**Except for the information included in this section, IBank has not independently verified and makes no representations with respect to the accuracy, adequacy or completeness of the statements and information set forth herein.**

## **STATE WATER RESOURCES CONTROL BOARD**

The State Water Board was created in 1967 by merging the State Water Rights Board and the State Water Quality Control Board, thus integrating water rights and water quality decision-making authority. In 2014, the State's drinking water program responsibilities were transferred from the Department of Public Health to the State Water Board to further integrate oversight of water issues in California. The mission of the State Water Board is to preserve, enhance, and restore the quality of California's water resources and drinking water for the protection of the environment, public health, and all beneficial uses, and to ensure proper water resource allocation and efficient use, for the benefit of present and future generations. The State Water Board and the nine Regional Water Quality Control Boards (the "Regional Water Boards") work together to protect California's water.

The nine Regional Water Boards develop and enforce water quality objectives and implementation plans which will best protect the beneficial uses of the State's waters, recognizing local differences in climate, topography, geology, and hydrology. Each Regional Water Board makes critical water quality decisions for its region. These decisions include setting standards, issuing waste discharge requirements, determining compliance with those requirements, and taking appropriate enforcement actions. Regional Water Boards develop "basin plans" for their hydrologic areas, govern the issuance of waste discharge permits, take enforcement action against violators, and monitor water quality. Each Regional Water Board has seven part-time members appointed by the Governor and confirmed by the State Senate.

Certain activities of each Recipient are regulated by the State Water Board and may also be regulated by the Regional Water Boards for the region in which the Recipient is located. The State Water Board's role in protecting water includes setting statewide policy, coordinating and supporting the Regional Water Boards' efforts, reviewing petitions contesting Regional Water Boards' actions, regulating public water systems and enforcing drinking water standards, and administering several financial assistance programs, including, but not limited to, the CWSRF and the DWSRF. The State Water Board is also solely responsible for allocating certain surface water rights.

The United States Environmental Protection Agency (the "U.S. EPA"), in cooperation with the State of California (State), has also designated the State Water Board as the "primacy agency" to implement and enforce the Federal Safe Drinking Water Act. As the state primacy agency, the State Water Board regulates more than 7,500 Public Water Systems ("PWS") located throughout the State. To assist in this effort, the State Water Board has delegated its primacy authority to 30 local health departments, known as local primacy agencies, to regulate PWSs serving less than 200 service connections. The State Water Board also promotes safe and reliable drinking water through drought preparedness and water conservation measures; promoting water recycling projects; certifying drinking water treatment and distribution operators; supporting and promoting water system security; providing for small water system

technical assistance; and mandating minimum standards for PWS technical, managerial, and financial capacity.

The State Water Board is authorized by the State Safe Drinking Water Act to use moneys in the DWSRF for purposes permitted by the Federal Safe Drinking Water Act, and by the State Clean Water Act to use moneys in the CWSRF for purposes permitted by the Federal Clean Water Act. The Division of Financial Assistance administers the SRFs with approximately 77.4 full-time equivalent staff and management positions assigned to such purpose. The SRFs provide financial assistance in the form of low-interest financing, additional subsidy, and other technical assistance derived from federal capitalization grants, associated state match, and revolving principal and interest repayments, to eligible recipients to improve public water and wastewater systems and to construct other eligible projects. The DWSRF also funds, in part, the State Water Board’s Public Water System Supervision and Capacity Development Programs within its Division of Drinking Water. The State Water Board’s telephone number for activities relating to the SRFs is (916) 327-9978 and the address is State Water Resources Control Board, Division of Financial Assistance, 1001 I Street, 16th Floor, Sacramento, CA 95814.

The State Water Board consists of five full-time salaried members, each filling a different specialty position. State Water Board members are appointed to four-year terms by the Governor and confirmed by the State Senate. The current State Water Board members are:

<u>Name</u>	<u>Position</u>	<u>Type</u>	<u>Term Expires (January 15)</u>
E. Joaquin Esquivel	Chair	Public	2021
Dorene D’Adamo	Vice Chair	Water quality expert	2022
Tam M. Doduc	Member	Civil engineer	2021
Sean Maguire	Member	Sanitary engineer	2020
Laurel Firestone	Member	Attorney	2023

## **THE STATE REVOLVING FUND PROGRAMS**

### **Federal Grants and State Match**

Under the Federal Clean Water Act and the Federal Safe Drinking Water Act, each state may create a water pollution control and a safe drinking water revolving fund to accept federal capitalization grants (the “Capitalization Grants”). Capitalization Grants are awarded to states so they can provide loans and other forms of financial assistance to eligible applicants for construction, rehabilitation, or implementation of Eligible Projects.

Capitalization Grants for the SRFs are made pursuant to agreements (the “Capitalization Grant Agreements”) between the State and the U.S. EPA. As a condition to receiving a Capitalization Grant, the State, among other conditions, must provide additional funding in an amount equal to at least 20% of each Capitalization Grant (the “State Match”). The State Water Board has provided the State Match in various ways, including direct appropriations from State resources (including State general obligation bonds), short-term inter-department borrowings and loan repayments from the State’s water reclamation program. In addition, certain Recipients

have contributed a portion of the State Match in exchange for reduced interest rate financing. Under the Master Trust Indenture, the Bonds may also be used to provide the State Match. To date, neither the State Water Board nor IBank has issued bonds to fund the State Match for CWSRF.

For each Capitalization Grant Agreement, the State Water Board prepares a Capitalization Grant application and a plan (the “Intended Use Plan”) describing the intended use of each grant and other available sources. The Intended Use Plans identify projects expected to be provided with financial assistance from the SRFs, the goals of each SRF, and the criteria and methods established for the distribution of SRF funds and other funds available to the State Water Board that can be used for Eligible Projects. The SRFs are subject to operating agreements with U.S. EPA which govern the State’s implementation of the CWSRF and DWSRF programs.

Capitalization Grants are not part of the Pledged Assets.

Since 1989 through December 31, 2018, the U.S. EPA has awarded the State Water Board Capitalization Grants aggregating \$5.221 billion (\$3.261 billion for the CWSRF and \$1.960 billion for the DWSRF), and the State has provided State Match aggregating approximately \$1.03 billion (\$638.3 million for the CWSRF and \$389.3 million for the DWSRF).

### **Administration of the SRFs**

General. The State established the CWSRF in 1989 and the DWSRF in 1997. The Capitalization Grants and the State Match funds received by the State Water Board are deposited into the appropriate SRF. Under the State Clean Water Act and the State Safe Drinking Water Act, the amounts on deposit in the SRFs are continuously appropriated to fund additional Project Obligations and for other permitted purposes of the SRFs.

CWSRF. Moneys in the CWSRF are used by the State Water Board for various purposes permitted under the Federal Clean Water Act and the State Clean Water Act, including providing low-cost financing to Recipients for the costs of CWSRF Eligible Projects by entering into CWSRF Project Obligations. The State Clean Water Act currently authorizes CWSRF funding for any projects and activities eligible under the Federal Clean Water Act, including, but not limited to, planning, design, construction and implementation of wastewater management systems, nonpoint source pollution management systems, estuary conservation and management, decentralized wastewater treatment systems, stormwater or subsurface drainage water systems, capacity or energy reduction measures for public treatment facilities, watershed projects, security measures for public treatment facilities, and wastewater, stormwater, or subsurface drainage water reuse or recycling. The State Water Board can fund CWSRF Project Obligations from (i) net assets of the CWSRF, including revolving federal contributions, revolving state match contributions, and retained income and (ii) revenue bonds issued by IBank on behalf of the State Water Board. As of June 30, 2018, the State Water Board had funded CWSRF Project Obligations in the aggregate principal amount of approximately \$10.9 billion to 357 Recipients for 827 CWSRF Eligible Projects.

DWSRF. Moneys in the DWSRF are used by the State Water Board for various purposes permitted under the Federal Safe Drinking Water Act and the State Safe Drinking Water Act, including providing low-cost financing to Recipients for the costs of DWSRF Eligible Projects by entering into DWSRF Project Obligations. The State Safe Drinking Water Act currently authorizes DWSRF funding for any projects and activities eligible under the Federal Safe Drinking Water Act, including, but not limited to, projects that address present or prevent future violations of health-based drinking water standards or to replace aging infrastructure. The State Water Board can fund DWSRF Project Obligations from (i) net assets of the DWSRF, including revolving federal contributions, revolving state match contributions, and retained income and (ii) revenue bonds issued by IBank on behalf of the State Water Board. As of June 30, 2018, the State Water Board had funded DWSRF Project Obligations in the aggregate principal amount of approximately \$3.0 billion to 296 Recipients for 455 DWSRF Eligible Projects.

FI\$Cal Implementation. The State Water Board began using a new statewide system for accounting, budgeting, cash management, and procurement, known as “Financial Information System for California” or “FI\$Cal”. The State Water Board is currently migrating its accounting, budgeting, cash management, and procurement data from the prior statewide system into the new FI\$Cal system, which may impact the State Water Board’s administration of the DWSRF and CWSRF programs. These effects could include, among other things, delays to the timely disbursement of funds to Recipients of Project Obligations, including Bond Funded Project Obligations, and to the timely payments of amounts due for the procurement of services related to the administration and management of the DWSRF and CWSRF programs. The State Water Board anticipates delays in the preparation of audited financial statements for the current state fiscal year due to the transition to FI\$Cal. The State Water Board does not expect delays in the timely payment of amounts due on Board Payment Dates.

For more information on Project Obligations, see “THE RECIPIENTS — Project Obligations.” For a description of the operation of the SRFs following issuance of the Series 2019 Bonds, see “SECURITY AND SOURCE OF PAYMENT FOR BONDS — Summary of Flow of Funds.”

Cybersecurity Risk. The State and its agencies and departments, including the State Water Board, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations. As a recipient and provider of personal, private, or sensitive information, the State and its agencies and departments are subject to multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the State’s digital systems for the purposes of misappropriating assets or information or causing operational disruption and damage. The State Water Board’s information systems, other than FI\$Cal, are largely separate from the State’s systems. The State Water Board has an Information Security Officer (“ISO”) who monitors cyber threats to the State Water Board’s information systems. In addition, in 2017, the State established a statewide security operations center to protect against malicious activity targeting critical technology infrastructure, which also monitors network traffic coming into the State Water Board’s information systems and provides information relating to suspicious activity for the ISO to investigate. No assurances can be given that the State’s efforts to manage cyber threats and attacks will be successful or that any such attack will not materially impact the

operations or finances of the State and its agencies and departments, including the State Water Board.

### **U.S. EPA Reports**

The U.S. EPA periodically evaluates the State Water Board to determine whether the SRFs comply with the requirements of the Federal Clean Water Act and the Federal Safe Drinking Water Act. In its Program Evaluation Report for FY 2017, the U.S. EPA concluded that State Water Board met all program requirements except that it needed to include an American Iron and Steel certification for one Project Obligation. The most recent copy of U.S. EPA's Program Evaluation Reports can be found at:

For the CWSRF:

[https://www.waterboards.ca.gov/water\\_issues/programs/grants\\_loans/srf/pubs.shtml](https://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/pubs.shtml)

For the DWSRF:

[https://www.waterboards.ca.gov/drinking\\_water/services/funding/dwsrf\\_annualrpts.html](https://www.waterboards.ca.gov/drinking_water/services/funding/dwsrf_annualrpts.html)

The information on such websites and in such reports is not incorporated herein by the foregoing references.

## **THE RECIPIENTS**

### **General**

The State Water Board provides financial assistance from the SRFs for the Eligible Projects of local government units or other qualified program participants, referred to herein as "Recipients." The financial assistance provided by the State Water Board is evidenced by a loan contract, an installment purchase contract, or similar document, referred to herein as "Project Obligations." The particular CWSRF Project Obligations that are pledged by the State Water Board under the Master Payment and Pledge Agreement and assigned by IBank to the Trustee under the Indenture for the benefit of Bonds issued to finance CWSRF Project Obligations, are referred to herein as "CWSRF Pledged Project Obligations," and the Recipients under the CWSRF Pledged Project Obligations are referred to as "CWSRF Pledged Project Obligation Recipients," as described below. The particular DWSRF Project Obligations that are pledged by the State Water Board under the Master Payment and Pledge Agreement and assigned by IBank to the Trustee under the Indenture for the benefit of Bonds issued to finance DWSRF Project Obligations, are referred to herein as "DWSRF Pledged Project Obligations" and, together with the CWSRF Pledged Project Obligations, the "Pledged Project Obligations." The Recipients under the DWSRF Pledged Project Obligations are referred to as "DWSRF Pledged Project Obligation Recipients" and, together with the CWSRF Pledged Project Obligation Recipients, the "Project Obligation Recipients," as described below.

## **Recipient Eligibility**

Municipalities and other qualified entities are eligible Recipients of financial assistance from the SRFs. Currently, each Recipient of a Pledged Project Obligation is a local governmental unit in the State.

The State Water Board may determine the eligibility and priority of applicants for Project Obligations by considering a variety of factors, including an applicant's ability to repay the State Water Board, the feasibility of the proposed project and whether the proposed project is expected to result in a demonstrable improvement in water quality, including drinking water quality and/or drinking water reliability. The State Water Board's evaluation of an applicant's ability to repay a Project Obligation includes, but is not limited to: (a) evaluating all material debt (e.g., all debt secured by the revenues or other assets securing or used to pay the Project Obligation); (b) evaluating the applicant's long-term indebtedness plans; (c) evaluating three years of the applicant's audited financial statements and any adopted future year's budget; (d) identifying any restricted funds and the reason for the restrictions; (e) evaluating information submitted by the applicant regarding current, prior, or pending material events (such as, bankruptcy, defaults, litigation, grand jury findings/indictments); (f) identifying any conditions in material debt obligations that must be satisfied prior to executing the Project Obligation; (g) identifying any debt limit to which an applicant is subject; (h) evaluating a new tax, fee, charge, or assessment and its ability to meet budget projections; (i) evaluating the effect of any relevant service, management, operating, or joint powers agreements on the proposed Project Obligation; and (j) verifying that the applicant has sufficient property rights in the land used for all portions of the project to enable it to access, construct, operate, maintain, and allow for outside inspections of the project throughout the term of the Project Obligation. **Neither the State Water Board nor IBank makes any representation concerning the creditworthiness of any particular Recipient or its ability to make payments as provided in its Project Obligation.**

## **Project Obligations**

General. The State Water Board has entered into the Pledged Project Obligations with the Pledged Project Obligation Recipients and the State Water Board has in the past and will in the future enter into Project Obligations with other Recipients whose Project Obligations are not currently pledged as security for the Bonds but may be so pledged in the future. Eligible Projects are funded by the State Water Board by periodically transferring construction funds to the Recipients pursuant to a cost reimbursement disbursement process while the Eligible Projects are being constructed. Upon the completion of the Eligible Project, a final amortization schedule is provided to the Recipient.

Presently, each Recipient of a Pledged Project Obligation must pledge or dedicate one or more sources of revenue toward repayment of its Project Obligation. These dedicated sources of revenue can include, but are not limited to, water, sewer, or recycled water rate revenue pledges or other contractual income of the Recipient. To ensure that Project Obligations are repaid on time and in full, the State Water Board uses a variety of analytical and monitoring measures to reduce the possibility of non-payment.

Basic Terms of Project Obligations. CWSRF Project Obligations are generally amortized over a period not to exceed 30 years, with payments commencing within one year after the date of completion of the Eligible Project. Construction period interest is capitalized at completion and amortized as part of the CWSRF Project Obligation. Interest rates on CWSRF Project Obligations are fixed at rates that are no greater than one-half the interest rate rounded up to the next one-tenth of one percent on the most recent issue of State general obligation bonds. Historically, DWSRF Project Obligations were amortized over a period not to exceed 20 years. More recent DWSRF Project Obligations are generally amortized over a period not to exceed 30 years (or 40 years for certain Recipients after February 2019), with interest payments required during the construction period. Interest rates on DWSRF Project Obligations are fixed at rates not to exceed fifty percent of the average interest rate on the issue of State general obligation bonds in the prior calendar year. Repayments of CWSRF Project Obligations are made at least annually, generally in level annual installments throughout the CWSRF Project Obligation term, and prepayments have historically been permitted at par at any time. Repayments of DWSRF Project Obligations have historically been made semi-annually, generally in level installments throughout the DWSRF Project Obligation term. DWSRF Project Obligations entered into after February 2019 will generally require annual payments. Prepayments have historically been permitted at any time. In addition to interest, the State Water Board may charge Recipients fees that are not included in Pledged Assets. An administrative fee may be charged in lieu of up to 1.0% interest on obligations and a small community grant fee or safe drinking water small community emergency grant fee may be charged in lieu of the full interest rate on certain Project Obligations. The State Water Board intends to amend some or all of the Pledged Project Obligations to include such fees.

Substantially all Project Obligations identify the revenues dedicated or otherwise expected to be used to repay the Project Obligations, such as the gross or net revenues from the Recipient's sewer or water system or special assessments or capacity charges. Some Project Obligations are secured by a senior lien on revenues or other pledged assets, but other Project Obligations may be secured on a parity or subordinate basis or provide no priority lien. Recipients may generally issue additional debt with a parity lien on the revenues or other assets securing or used to pay the Project Obligations, but generally may not issue additional debt with a lien senior to the lien on revenues or other assets securing or used to pay the Project Obligations, except in certain specific situations. These specific situations may include, but are not limited to, circumstances where (a) the Project Obligation provides for 100% forgiveness of principal or (b) the senior obligation refunds an existing debt with the same lien position as that existing debt, the new debt has the same or earlier repayment term as the refunded debt, the new debt service is the same or lower than the existing debt service, and the new debt will not diminish the applicant's ability to repay its Project Obligation.

On October 3, 2017, the State Water Board adopted its Clean Water and Drinking Water State Revolving Funds Debt Management Policy, which established a consent requirement for prepayment of Project Obligations approved thereafter. If prepayments on CWSRF Pledged Project Obligations occur, the State Water Board will apply the prepayment amount in the manner it determines, in its discretion, including without limitation to pay scheduled debt service on Outstanding Bonds issued to fund CWSRF Bond Funded Project Obligations, to redeem or purchase Outstanding Bonds issued to fund CWSRF Bond Funded Project Obligations in accordance with their terms, to fund a new CWSRF Project Obligation or, if released from the

lien of the Master Payment and Pledge Agreement and the Indenture in accordance with the Master Payment and Pledge Agreement and the Indenture, for other lawful purposes of the CWSRF. If prepayments on DWSRF Pledged Project Obligations occur, the State Water Board will apply the prepayment amount in the manner it determines, in its discretion, including without limitation to pay scheduled debt service on Outstanding Bonds issued to fund DWSRF Bond Funded Project Obligations, to redeem or purchase Outstanding Bonds issued to fund DWSRF Bond Funded Project Obligations in accordance with their terms, to fund a new DWSRF Project Obligation or, if released from the lien of the Master Payment and Pledge Agreement and the Indenture in accordance with the Master Payment and Pledge Agreement and the Indenture, for other lawful purposes of the DWSRF.

Additional Terms of Project Obligations. Project Obligations previously entered into are evidenced by standard forms of contract documents used at various times by the State Water Board or its DWSRF predecessors. Pledged Project Obligations may include provisions concerning (i) the maximum financing amount, (ii) the interest rate, (iii) the repayment schedule, (iv) the right of the State Water Board to assign, grant a security interest in, or otherwise encumber the Project Obligation including any payments thereunder, and (v) a limited right of the State Water Board to terminate the Pledged Project Obligation upon material breach by the Recipient. Pledged Project Obligations may also include covenants by the Recipient (a) to maintain a dedicated source of revenue sufficient to provide reasonable assurance of repayment, (b) to establish a restricted cash reserve equal to one year's debt service funded over various periods from Recipient revenues rather than Pledged Project Obligation proceeds and maintain such reserve throughout repayment of the Pledged Project Obligation, unless the State Water Board determines that credit or tax considerations support a different result, (c) to comply with coverage requirements, (d) to properly operate, and maintain the Eligible Project during its useful life, (e) to not abandon or dispose of the Eligible Project, (f) to provide, in the case of Pledged Project Obligations, reports, data and information reasonably required by the State Water Board, (g) to maintain project accounts in accordance with generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, and (h) in the case of some DWSRF Project Obligations, use a fiscal agent for the payment of debt service under, and holding of any reserve fund for, the DWSRF Project Obligation. CWSRF Project Obligations generally contain a requirement mandating minimum coverage ratios of net system revenues to total system debt service, including Project Obligations, that generally range from 100% to 125%, though credit factors may result in higher or lower coverage requirements in specific instances. DWSRF Project Obligations generally contain a requirement mandating that gross revenues be sufficient to pay operating costs and debt service on the DWSRF Project Obligation.

Monitoring Project Obligations. The State Water Board monitors and surveils all Project Obligations in a variety of ways to ensure that loans are repaid on time and in full, including, but not limited to, (1) requiring loan recipients to submit annual, audited financial statements for at least the first five years of the loan, and potentially longer if warranted, (2) reviewing bankruptcy filings, and (3) reviewing news clips and press releases.

Following an event of default under a Project Obligation, the State Water Board may pursue various remedies, such as restructuring payment terms or taking action in court to compel performance by the Recipient. However, there can be no assurance that the exercise of such

remedies would fully compensate the State Water Board for losses it suffers as a result of such event of default.

The State Water Board monitors Recipients' finances and works closely with the Recipients to maximize the likelihood of complete repayment of the Project Obligations.

#### Legacy Project Obligations.

CWSRF. Financing agreement language for the CWSRF Project Obligations dated prior to 2003 ("Legacy CWSRF Project Obligations") does not include certain provisions that are typically included in revenue bond financings in the public finance sector, such as an explicit pledge, lien or encumbrance on revenues, a specific rate covenant, a stated priority of the dedicated source of revenues used to repay the CWSRF Project Obligations, nor, in most instances prior to 1994, a covenant regarding additional borrowings. The financing agreement language for the CWSRF Project Obligations executed after 2003 does include an explicit pledge, lien or encumbrance on revenues, a specific rate covenant, a stated priority of the dedicated source of revenues used to repay the Project Obligations and a covenant regarding additional borrowings. CWSRF Pledged Project Obligations that are Legacy CWSRF Project Obligations are indicated by footnote in APPENDIX A — "PLEDGED PROJECT OBLIGATIONS — CWSRF PLEDGED PROJECT OBLIGATIONS."

DWSRF. Financing agreement language for the DWSRF Project Obligations dated prior to 2015 ("Legacy DWSRF Project Obligations") may not include certain provisions that are typically included in revenue bond financings in the public finance sector, such as an explicit pledge, lien or encumbrance on revenues, a specific rate covenant, a stated priority of the dedicated source of revenues used to repay the Legacy DWSRF Project Obligations, nor, in most instances prior to 2015, a covenant regarding additional borrowings. In addition, the pledge, lien or encumbrance on revenues in certain Legacy DWSRF Project Obligations may be expressly or effectively subordinate to a Recipient's other revenue obligations or may be on only a portion of a Recipient's revenues or on special fees or charges. The financing agreement language for the DWSRF Project Obligations executed after 2015 does include an explicit pledge, lien or encumbrance on revenues (unless not otherwise permitted by a Recipient's charter or revenue bond documents), a specific rate covenant, a stated priority of the dedicated source of revenues used to repay the Project Obligations and a covenant regarding additional borrowings. The State Water Board has completed the transition of all Legacy DWSRF Obligations from manual records to its automated system. In making this transition, the State Water Board determined that there had been errors in calculating payments as well as failures to collect payments. As a result, principal amounts of Legacy DWSRF Obligations may not be correct in all cases. All of the DWSRF Pledged Project Obligations are Legacy DWSRF Project Obligations as indicated by footnote in APPENDIX A — "PLEDGED PROJECT OBLIGATIONS — DWSRF PLEDGED PROJECT OBLIGATIONS."

#### Amount of Project Obligations.

CWSRF. As of June 30, 2018, the State Water Board had approximately \$3.57 billion outstanding principal amount of CWSRF Project Obligations that are currently in repayment. As of June 30, 2018, the State Water Board had approximately \$848.4 million outstanding principal

amount of CWSRF Project Obligations that are not yet in repayment, and approximately \$2.71 billion in outstanding commitments remaining to be disbursed as principal to CWSRF Project Obligations. The State Water Board adopted its fiscal year 2018-19 CWSRF Fundable List on June 19, 2018. The CWSRF Fundable List includes approximately 115 projects requesting approximately \$1.9 billion, which have either received CWSRF or parallel state financing in fiscal year 2018-19 or are advancing to CWSRF or parallel state financing. An additional 167 projects totaling approximately \$5.3 billion are being evaluated for potential addition to the fiscal year 2019-20 CWSRF Fundable List with an estimated funding target of approximately \$1.0 billion in CWSRF financing. See “OUTSTANDING BONDS AND FUTURE BOND ISSUANCE — Future Bond Issuance — CWSRF.”

DWSRF. As of June 30, 2018, the State Water Board had approximately \$1.59 billion outstanding principal amount of DWSRF Project Obligations that are currently in repayment. As of June 30, 2018, the State Water Board had no outstanding principal amount of DWSRF Project Obligations that are not yet in principal repayment, and approximately \$716.1 million in outstanding commitments remaining to be disbursed as principal to DWSRF Project Obligations. The State Water Board adopted its fiscal year 2018-19 DWSRF Fundable List on June 19, 2018. The fiscal year 2018-19 DWSRF Fundable List includes approximately 96 projects requesting approximately \$569 million, which have either received DWSRF or parallel state financing in fiscal year 2018-19 or are advancing to DWSRF or parallel state financing. An additional 295 projects totaling approximately \$2.9 billion are being evaluated for potential addition to the SFY 2019-20 DWSRF Fundable List with an estimated funding target of approximately \$420 million. See “OUTSTANDING BONDS AND FUTURE BOND ISSUANCE — Future Bond Issuance — DWSRF.”

### **Pledged Project Obligations**

Pursuant to the Master Payment and Pledge Agreement, the State Water Board will pledge to IBank 144 Project Obligations (126 CWSRF Pledged Project Obligations from 56 Recipients with an outstanding aggregate principal amount as of December 31, 2018, of approximately \$2.16 billion and 18 DWSRF Pledged Project Obligations from 9 Recipients with an outstanding aggregate principal amount as of December 31, 2018, of approximately \$165.4 million (the “Pledged Project Obligations”). The aggregate principal amounts of such Pledged Project Obligations may increase as the result of any additional capitalized interest. Under the Indenture and the Master Payment and Pledge Agreement, the Pledged Project Obligations can be substituted, added, or released from time to time at the discretion of the State Water Board if the requirements of the Indenture are satisfied. See “SECURITY AND SOURCE OF PAYMENT FOR BONDS — Release of Pledged Project Obligations.” The Pledged Project Obligations at the time of issuance of the Series 2019 Bonds are listed in APPENDIX A — “PLEDGED PROJECT OBLIGATIONS.”

Monitoring Pledged Project Obligations. The State Water Board is required to monitor each Pledged Project Obligation Recipient's performance under the Pledged Project Obligations, exercise all rights and remedies under any statute, rule, or the Master Payment and Pledge Agreement to ensure the timely performance by the Pledged Project Obligation Recipient and the timely payment of all amounts due under the Pledged Project Obligations and diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of, all

terms, covenants and conditions of all Pledged Project Obligations. APPENDIX D — “SUMMARY OF THE MASTER TRUST INDENTURE AND THE MASTER PAYMENT AND PLEDGE AGREEMENT — Master Payment and Pledge Agreement — Enforcement of the Pledged Project Obligations.” The State Water Board may, but is not required to, substitute or add Project Obligations to the lien of the Master Payment and Pledge Agreement. See “SECURITY AND SOURCE OF PAYMENT FOR BONDS — Release of Pledged Project Obligations.”

The State Water Board has determined that certain financial and operating information for the Recipients of the Pledged Project Obligations pledged to the Bonds will be provided when a Recipient has Pledged Project Obligations in an outstanding aggregate principal amount comprising more than 20% of the aggregate principal amount of the Pledged Project Obligations. Upon issuance of the Series 2019 Bonds, no Recipient will have Pledged Project Obligations in an outstanding aggregate principal amount comprising more than 20% of the aggregate principal amount of the Pledged Project Obligations. See APPENDIX A — “PLEGGED PROJECT OBLIGATIONS.”

### **Matters Affecting Pledged Project Obligation Recipients’ Systems**

General. A number of factors may affect operation of the water or wastewater systems of Pledged Project Obligation Recipients which could in turn impact revenues available to Pledged Project Obligation Recipients for the payment of their Pledged Project Obligations. Actual operation and maintenance expenses of such systems may be greater or less than projected. Factors such as changes in technology, increased costs of material, energy, labor, and administration can substantially affect system expenses. The operation of Pledged Project Obligation Recipients’ water and wastewater systems are also subject to a variety of state and federal laws and regulations. Changes in, modifications in interpretation of, or additions to such applicable laws, provisions, and regulations could have a material adverse effect, either directly or indirectly, on the operation of such systems. Increases in system rates could affect demand for system usage. Other unanticipated federal actions could also have a material adverse effect, either directly or indirectly, on the operation of water or wastewater systems.

The State Water Board’s monitoring and surveillance program for both Project Obligations and Pledged Project Obligations is described under “THE RECIPIENTS — Project Obligations — Monitoring Project Obligations; Pledged Project Obligations — Monitoring Pledged Project Obligations.” This monitoring and surveillance program will enable the State Water Board to monitor the financial impact of a variety of factors and events on each Recipient’s ability to repay their Project Obligations.

California Constitution. Provisions of the California Constitution may affect Pledged Project Obligation Recipients’ ability to charge or increase fees for water or sewer services. Fees and charges for the provision of water or service are excluded from the voter approval requirements of Cal. Const. Art. 13D, § 6; although increases in rates also require compliance with the other procedural requirements of Cal. Const. Art. 13D, § 6. Further, Cal. Const. Art. 13C, § 3 provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local fees or charges. No assurance can be given that the voters of a Recipient of a Pledged Project Obligation will not, in the future, approve initiatives which seek

to repeal, reduce or prohibit the future imposition or increase of fees or charges for services which are the source of revenues for the payment of its Pledged Project Obligation or that litigation regarding compliance with state law, including the requirements of Cal. Const. Art. 13D, § 6, could result in the change or reduction of fees or charges for services of a Recipient of a Pledged Project Obligation.

**Neither the State Water Board nor IBank makes any representation concerning the impact of matters affecting Pledged Project Obligation Recipient water or wastewater systems, ratepayer initiatives or similar matters on any particular Pledged Project Obligation Recipient or its ability to make payments as provided in its Project Obligation.**

Climate Change. Climate change is affecting California's water resources and creates additional challenges for water supply availability and reliability. Climate change in California may affect revenues of some Recipients and their respective Project Obligations, including particularly those whose water and wastewater rates are based on water usage. Although the State Water Board currently requires that each new applicant for a Project Obligation consider the potential effects of climate change as part of its project analysis, the State Water Board cannot assess the impact of climate change on the Recipients at this time. There are 144 Pledged Project Obligations securing the payment of outstanding bonds following issuance of the 2019 Bonds. The Recipients of these Project Obligations provide an essential public service to their customers and rate payers.

Wildfires. California experienced several large wildfires during 2018. Although the impact of these fires is still being assessed, several DWSRF Recipients are facing financial hardships as a result of the fires and have indicated that the effects of the fires will make it difficult for them to make timely payments on their Project Obligations. For communities devastated by California wildfires in 2018 that are prevented from making full or timely payments under the terms of their Project Obligations, due to severe damage or destruction of the system financed by the Project Obligation or due to displacement of a significant portion of the ratepayer base, the State Water Board has authorized the Deputy Director of DFA to amend Project Obligations to modify their terms as she deems appropriate, consistent with state and federal law, including but not limited to providing for the restructuring or deferral of repayments, a change in interest rate, forgiveness of principal, and providing additional assistance notwithstanding contrary provisions in any Policy, Guidelines, or IUPs. No Recipient of a Pledged Project Obligation has indicated that it is facing a financial hardship as a result of the 2018 wildfires. On March 22, 2019, the Governor proclaimed a state of emergency ahead of the 2019 wildfire season due to an increase in wildfire risk.

## **SECURITY AND SOURCE OF PAYMENT FOR BONDS**

### **Limited Obligations**

The Bonds, including the Series 2019 Bonds, are special limited obligations of IBank, payable solely from, and secured by, a pledge of the Pledged Assets consisting primarily of the Pledged Revenues, and the funds and accounts established under the Master Trust Indenture (except amounts on deposit in the Rebate Fund). **The Bonds, including the Series 2019 Bonds, do not constitute an indebtedness of the State Water Board, IBank, or the State or any**

**instrumentality or political subdivision thereof within the meaning of any constitutional debt limitation or restriction nor a pledge of the faith and credit or taxing power of the State or any instrumentality or political subdivision thereof. Neither the State Water Board nor IBank has taxing power.**

### **Pledged Assets**

The Bonds, including the Series 2019 Bonds, are secured by a pledge of the Pledged Assets which consist of all of IBank's right, title, and interest in and to the Master Payment and Pledge Agreement (other than Board Reserved Rights and IBank Reserved Rights), the Pledged Revenues, and the funds and accounts established under the Master Trust Indenture (except amounts on deposit in the Rebate Fund).

### **Sources of Repayment**

The Bonds issued under and secured by the Master Trust Indenture, any Related Series Indenture, and the Master Payment and Pledge Agreement, including the Series 2019 Bonds, are to be repaid from Pledged Revenues derived from the Pledged Project Obligations, including any prepayments.

The Master Trust Indenture provides that Pledged Revenues include (i) repayments of principal of and interest on Pledged Project Obligations and Prepayments thereon, (ii) the principal and interest on Investment Obligations, (iii) payments received from the United States or the State related to Bonds issued under the Master Trust Indenture and as designated in a Series Indenture, and (iv) and any other amounts held under the Master Trust Indenture and designated as Pledged Revenues.

The Master Trust Indenture and the Master Payment and Pledge Agreement define certain events of default and remedies; however, no remedy of acceleration is available following an event of default. See APPENDIX D — "SUMMARY OF THE MASTER TRUST INDENTURE AND THE MASTER PAYMENT AND PLEDGE AGREEMENT — Events of Default; Remedies."

### **Pledged Project Obligations**

Pledged Project Obligations consist of the Project Obligations identified by the State Water Board pursuant to the Master Payment and Pledge Agreement. As of December 31, 2018, the outstanding principal balance of the Pledged Project Obligations is approximately \$2.33 billion (subject to increase as the result of capitalized interest) with interest rates ranging from 0.0% to 2.70% per annum. See "THE RECIPIENTS — Pledged Project Obligations" and APPENDIX A — "CWSRF PLEDGED PROJECT OBLIGATIONS; DWSRF PLEDGED PROJECT OBLIGATIONS."

As described below, the State Water Board may from time to time add, release or substitute the Pledged Project Obligations. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS — Release of Pledged Project Obligations." The issuance of Additional Bonds and other factors may affect the amount by which amounts receivable with respect to Pledged Project Obligations exceed the amount of Debt Service on the Outstanding Bonds, including the

Series 2019 Bonds, at any particular time; provided, however, that the State Water Board would still be required to meet the Additional Bonds Test. See “SECURITY AND SOURCE OF PAYMENT FOR BONDS — Additional Debt.”

If Additional Bonds are issued in the future, the State Water Board may use a portion of the proceeds of such Bonds to fund additional Project Obligations, which, in accordance with the terms of the Master Trust Indenture, may be designated as Pledged Project Obligations.

### **No Debt Service Reserve Fund Requirement for Series 2019 Bonds**

Under the Master Trust Indenture, IBank may, but is not required to, establish the Debt Service Reserve Fund Requirement and make a deposit to the Debt Service Reserve Fund from the proceeds of one or more Series of Bonds. Any amounts in the Debt Service Reserve Fund are pledged to and may be used to pay principal and interest on all Bonds. In connection with the Series 2019 Bonds, a Debt Service Reserve Fund Requirement will not be established. There is no amount held in the Debt Service Reserve Fund for any Outstanding Bonds. No assurance can be given that a Debt Service Reserve Fund Requirement for any Series of Bonds will ever be established. See APPENDIX D — “SUMMARY OF THE MASTER TRUST INDENTURE AND THE MASTER PAYMENT AND PLEDGE AGREEMENT — Master Trust Indenture and Series 2019 Indenture — Debt Service Reserve Fund.”

### **Release of Pledged Project Obligations**

Under the Master Trust Indenture, the State Water Board may release Pledged Project Obligations from the lien of the Master Payment and Pledge Agreement so as to become Excluded Project Obligations or substitute and add Project Obligations to the lien of the Master Payment and Pledge Agreement by providing and filing with the Trustee, IBank, and each Rating Agency then rating the Bonds (1) a revised Schedule I to the Master Payment and Pledge Agreement, describing the Pledged Project Obligations to be released and, if applicable, substituted therefor or added thereto, and (2) a Board Officer Certificate which demonstrates, in each year Bonds are scheduled to be Outstanding, compliance with the Coverage Test. “Coverage Test” means, as of any date of calculation, (A) Pledged Assets are not less than 105% of Debt Service for each Bond Year in which the Series 2019 Bonds are scheduled to be Outstanding, and (B) the Debt Service Reserve Fund Requirement, if any, is satisfied.

### **Additional Debt**

Additional Bonds or notes of various Series may be issued pursuant to the Master Trust Indenture and a Related Series Indenture. At the time Additional Bonds are issued, the Master Trust Indenture requires that the State Water Board must file with the Trustee a written certificate of the State Water Board demonstrating compliance with the Additional Bonds Test. (Refunding Bonds that result in aggregate lower Debt Service on the Outstanding Bonds are not required to have such a written certificate of the State Water Board.) Under the Master Trust Indenture, Additional Bonds Test means, as of any date of calculation, (A) Pledged Revenues are not less than 105% of Debt Service for each year in which the Bonds are scheduled to be Outstanding, and (B) the Debt Service Reserve Fund Requirement, if any, is satisfied.

## **Master Indenture Modifications and Change**

IBank and the Trustee may, with the prior written consent of the State Water Board and without the consent of or notice to the Owners, make changes or modifications necessary to the Master Trust Indenture to issue Bonds to finance additional State Water Board programs from time to time under the Federal Clean Water Act or the Federal Safe Drinking Water Act, or any other similar State or federally supported financing program as approved by the U.S. EPA, provided that such change or modification does not materially adversely affect or diminish the rights or interests of the Trustee or the Owners of any other Bonds. In making such determination the Trustee shall be entitled to rely on an opinion of counsel. See APPENDIX D — “SUMMARY OF THE MASTER TRUST INDENTURE AND THE MASTER PAYMENT AND PLEDGE AGREEMENT — Master Trust Indenture and Series 2019 Indenture — Supplemental Indentures Not Requiring Consent of Owners.” The Master Trust Indenture has been amended to permit the issuance of Bonds secured by the Pledged Assets to fund DWSRF Project Obligations.

## **Summary of Flow of Funds**

Initial Deposits. Proceeds of the Series 2019 Bonds will be placed in the 2019 Account in the Drinking Water Bond Proceeds Fund established under the Series Indenture. Appendix I identifies the amount of Series 2019 Bond proceeds expected to be provided for each project to be financed with the proceeds, the completion date for such projects and the percentage of the project expenditure completed.

Restricted Assets Funds. The Master Trust Indenture provides for the establishment of a Clean Water Restricted Assets Fund and a Drinking Water Restricted Assets Fund.

Application of Amounts in the Clean Water Restricted Assets Fund. All (a) amounts received as principal or interest on the CWSRF Pledged Project Obligations, and (b) any CWSRF Prepayments (as defined in the Master Trust Indenture) transferred from the Clean Water Prepayment Fund are required to be deposited into the Clean Water Restricted Assets Fund. Investment earnings on amounts in the Clean Water Restricted Assets Fund are required to be transferred when received to the Clean Water Debt Service Fund. Amounts in the Clean Water Restricted Assets Fund shall be applied as follows in the following order of priority to:

- (i) pay or reimburse the State Water Board and IBank for any Bond Expenses reasonably incurred in connection with an Event of Default,
- (ii) pay amounts due from the State Water Board in accordance with the priority described under “Payments by the State Water Board - Clean Water Restricted Assets Fund,”
- (iii) reimburse the Drinking Water Restricted Assets Fund for any transfers made to the Clean Water Debt Service Fund to make up any insufficiency therein,
- (iv) be applied at the direction of the State Water Board (i) to pay for CWSRF Administrative Costs, (ii) to originate a CWSRF Pledged Project Obligation, (iii)

to the redemption or purchase of Bonds issued to fund CWSRF Bond Funded Project Obligations as provided in the Master Trust Indenture and a Related Series Indenture, (iv) to make payments to the Trustee and IBank required by the Master Payment and Pledge Agreement, or (v), subject to the payment of any amounts necessary to satisfy the Related Rebate Requirement (as provided in the Related Tax Certificate) and upon the filing of a Board Officer Certificate with the Trustee and IBank which demonstrates that the Coverage Test is satisfied in each Bond Year the Bonds are scheduled to be Outstanding, released from the lien of the Master Trust Indenture and the Master Payment and Pledge Agreement and transferred to the CWSRF free and clear of the lien of the Master Trust Indenture and applied by the State Water Board for any lawful purpose.

Application of Amounts in the Drinking Water Restricted Assets Fund. All (a) amounts received as principal or interest on the DWSRF Pledged Project Obligations, and (b) any DWSRF Prepayments (as defined in the Master Trust Indenture) transferred from the Drinking Water Prepayment Fund are required to be deposited into the Drinking Water Restricted Assets Fund. Investment earnings on amounts in the Drinking Water Restricted Assets Fund are required to be transferred when received to the Drinking Water Debt Service Fund. Amounts in the Drinking Water Restricted Assets Fund shall be applied as follows in the following order of priority to:

- (i) pay or reimburse the State Water Board and IBank for any Bond Expenses reasonably incurred in connection with an Event of Default,
- (ii) pay amounts due from the State Water Board in accordance with the priority described under “Payments by the State Water Board - Drinking Water Restricted Assets Fund,”
- (iii) reimburse the Clean Water Restricted Assets Fund for any transfers made to the Drinking Water Debt Service Fund to make up any insufficiency therein,
- (iv) be applied at the direction of the State Water Board (i) to pay for DWSRF Administrative Costs, (ii) to originate a DWSRF Pledged Project Obligation, (iii) to the redemption or purchase of Bonds issued to fund DWSRF Bond Funded Project Obligations as provided in the Master Trust Indenture and a Related Series Indenture, (iv) to make payments to the Trustee and IBank required by the Master Payment and Pledge Agreement, or (v), subject to the payment of any amounts necessary to satisfy the Related Rebate Requirement (as provided in the Related Tax Certificate) and upon the filing of a Board Officer Certificate with the Trustee and IBank which demonstrates that the Coverage Test is satisfied in each Bond Year the Bonds are scheduled to be Outstanding, released from the lien of the Master Trust Indenture and the Master Payment and Pledge Agreement and transferred to the DWSRF free and clear of the lien of the Master Trust Indenture and applied by the State Water Board for any lawful purpose.

Payments by the State Water Board. The Master Trust Indenture provides that the State Water Board shall make periodic payments from the Clean Water Restricted Assets Fund and the

Drinking Water Restricted Assets Fund to the Trustee on each Board Payment Date. The Board Payment Dates are March 15, June 15, September 15, and December 15 of each year. Payments from the Clean Water Restricted Assets Fund and the Drinking Water Restricted Assets Fund are as follows:

Clean Water Restricted Assets Fund. The amount due and payable on a Board Payment Date from the Clean Water Restricted Assets Fund shall be determined as follows and paid in the following order of priority:

- (i) The amount necessary to pay the interest portion of the Amount Payable due on a Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which interest is due less amounts to be used to pay interest on the Related Series as provided in the Clean Water Debt Service Fund provisions of the Master Trust Indenture (provided that the State Water Board may include in its calculation of the amounts paid to the Trustee any investment earnings transferred from the Clean Water Debt Service Reserve Fund to the Clean Water Debt Service Fund, and interest earnings on deposit in the Clean Water Debt Service Fund);
- (ii) The amount necessary to pay the principal portion of the Amount Payable due on a Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which principal is due;
- (iii) The amount necessary to pay the interest portion of the Amount Payable due on such Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which interest is due for which payments described in clause (i) under “Payments by the State Water Board – Drinking Water Restricted Assets Fund” are insufficient;
- (iv) The amount necessary to pay the principal portion of the Amount Payable due on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which principal is due for which payments described in clause (ii) under “Payments by the State Water Board – Drinking Water Restricted Assets Fund” are insufficient;
- (v) The amount necessary to pay any other amounts that remain due and unpaid;
- (vi) The amount necessary to pay such amounts as are required pursuant to a Related Tax Certificate; and
- (vii) The amount necessary to pay for Related Bond Expenses.

Drinking Water Restricted Assets Fund. The amount due and payable on a Bond Payment Date from the Drinking Water Restricted Assets Fund shall be determined as follows and paid in the following order of priority:

- (i) The amount necessary to pay the interest portion of the Amount Payable due on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the

next succeeding Related Bond Payment Date on which interest is due less amounts to be used to pay interest on the Related Series as provided in the Drinking Water Debt Service Fund provisions of the Master Trust Indenture (provided that the State Water Board may include in its calculation of the amounts paid to the Trustee any investment earnings transferred from the Drinking Water Debt Service Reserve Fund to the Drinking Water Debt Service Fund, and interest earnings on deposit in the Drinking Water Debt Service Fund);

- (ii) The amount necessary to pay the principal portion of the Amount Payable due on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which principal is due;
- (iii) The amount necessary to pay the interest portion of the Amount Payable due on such Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which interest is due for which payments described in clause (i) under “Payments by the State Water Board – Clean Water Restricted Assets Fund” are insufficient;
- (iv) The amount necessary to pay the principal portion of the Amount Payable due on a Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which principal is due for which payments described in clause (ii) under “Payments by the State Water Board – Clean Water Restricted Assets Fund” are insufficient;
- (v) The amount necessary to pay any other amounts that remain due and unpaid;
- (vi) The amount necessary to pay such amounts as are required pursuant to a Related Tax Certificate; and
- (vii) The amount necessary to pay for Related Bond Expenses.

Deposits to Debt Service Funds. The Master Indenture establishes the Clean Water Debt Service Fund and the Drinking Water Debt Service Fund. The application of funds for deposit into the Clean Water Debt Service Fund and the Drinking Water Debt Service Fund pursuant to the Master Trust Indenture may be briefly described as follows:

Deposits to the Clean Water Debt Service Fund. There shall be deposited into the Clean Water Debt Service Fund the amounts due on each Related Board Payment Date and investment earnings on amounts in any Related Clean Water Bond Proceeds Fund, the Clean Water Restricted Assets Fund and the Clean Water Prepayment Fund. Interest earnings on amounts held in the Clean Water Debt Service Fund shall be credited and held in the Clean Water Debt Service Fund. Amounts to be deposited into the Clean Water Debt Service Fund shall be transferred in the following priorities, subject to the exceptions described in the final paragraph of this subsection:

- (i) Amounts designated to be used from proceeds of a Series and transferred to pay Debt Service on the Series of Bonds issued to fund CWSRF Bond Funded Project Obligations, as provided in the Related Series Indenture;

- (ii) Amounts transferred from a Clean Water Debt Service Reserve Fund, constituting certain amounts in excess of a Debt Service Reserve Fund Requirement, as and to the extent required under the Master Trust Indenture;
- (iii) Investment earnings on amounts held in a Clean Water Debt Service Reserve Fund;
- (iv) Amounts transferred from the Clean Water Prepayment Fund;
- (v) Amounts transferred from Clean Water Restricted Assets Fund as and to the extent provided in the Master Trust Indenture to pay the principal portion and the interest portion of the Amount Payable;
- (vi) Certain amounts transferred from a Clean Water Debt Service Reserve Fund;
- (vii) Amounts transferred from the Drinking Water Restricted Assets Fund as and to the extent provided in the Master Trust Indenture to pay the principal portion and the interest portion of the Amount Payable to the extent amounts in the Clean Water Debt Service Fund are insufficient;
- (viii) Any other amounts transferred from the Clean Water Restricted Assets Fund; and
- (ix) Any other amounts deposited therein by the State Water Board.

Deposits to the Drinking Water Debt Service Fund. There shall be deposited into the Drinking Water Debt Service Fund the amounts due on each Related Board Payment Date and investment earnings on amounts in any Related Drinking Water Bond Proceeds Fund, the Drinking Water Restricted Assets Fund and the Drinking Water Prepayment Fund. Interest earnings on amounts held in the Drinking Water Debt Service Fund shall be credited and held in the Drinking Water Debt Service Fund. Amounts to be deposited into the Drinking Water Debt Service Fund shall be transferred in the following priorities, subject to the exceptions described in the final paragraph of this subsection:

- (i) Amounts designated to be used from proceeds of a Series and transferred to pay Debt Service on the Series of Bonds issued to fund DWSRF Bond Funded Project Obligations, as provided in the Related Series Indenture;
- (ii) Amounts transferred from a Drinking Water Debt Service Reserve Fund, constituting certain amounts in excess of a Debt Service Reserve Fund Requirement, as and to the extent required under the Master Trust Indenture;
- (iii) Investment earnings on amounts held in a Drinking Water Debt Service Reserve Fund;
- (iv) Amounts transferred from the Drinking Water Prepayment Fund;

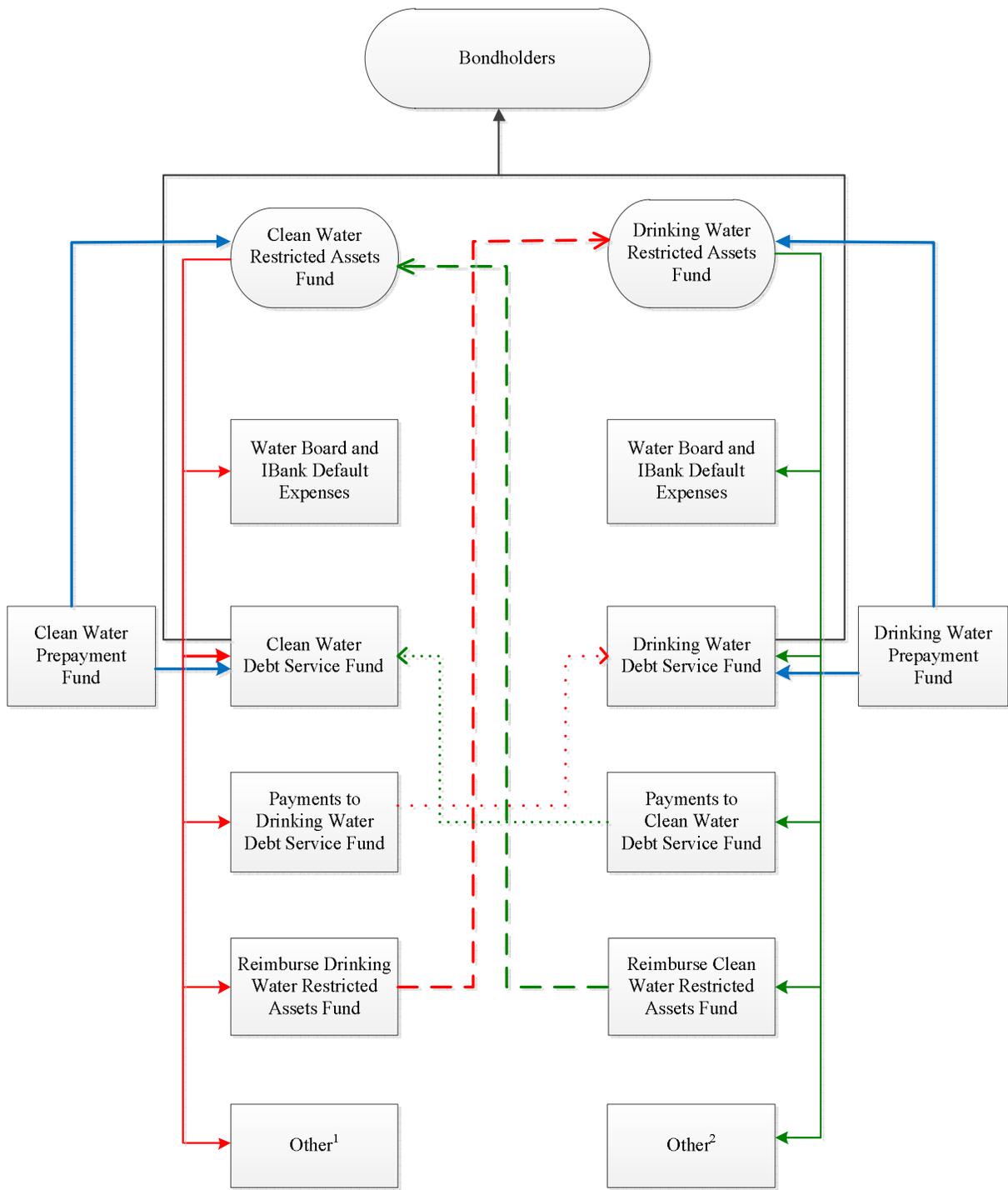
- (v) Amounts transferred from Drinking Water Restricted Assets Fund as and to the extent provided in the Master Trust Indenture to pay the principal portion and the interest portion of the Amount Payable;
- (vi) Certain amounts transferred from a Drinking Water Debt Service Reserve Fund;
- (vii) Amounts transferred from the Clean Water Restricted Assets Fund as and to the extent provided in the Master Trust Indenture to pay the principal portion and the interest portion of the Amount Payable to the extent amounts in the Drinking Water Debt Service Fund are insufficient;
- (viii) Any other amounts transferred from the Drinking Water Restricted Assets Fund; and
- (ix) Any other amounts deposited therein by the State Water Board.

Under the Master Trust Indenture, amounts held in the accounts in the Clean Water Debt Service Fund or Drinking Water Debt Service Fund shall be applied by the Trustee on each Related Bond Payment Date to pay Debt Service on the Related Series.

The Master Trust Indenture provides the following exceptions to the deposit of funds to the Clean Water Debt Service Fund or Drinking Water Debt Service Fund described above: (a) if an Event of Default shall have occurred and be continuing, prior to any transfers by the State Water Board of amounts into the Clean Water Debt Service Fund or Drinking Water Debt Service Fund, the State Water Board may first retain from amounts in the Clean Water Restricted Assets Fund and Drinking Water Restricted Assets Fund such amounts as are necessary to pay or reimburse the State Water Board and IBank for any Bond Expenses reasonably incurred in connection with such Event of Default; and (b) the State Match Portion of a Series of Bonds may not be paid from principal payments received on Pledged Project Obligations in accordance with the Related Series Indenture.

### **Flow of Funds Diagram**

The following diagram illustrates the portion of the flow of funds set forth in the Master Trust Indenture related to repayments of Pledged Project Obligations from the Restricted Assets Fund pursuant to the Master Trust Indenture and is not intended to be a complete or definitive description of the flow of funds. For a more complete description, see “SECURITY AND SOURCE OF PAYMENT FOR BONDS – Summary of Flow of Funds” and APPENDIX D — “SUMMARY OF THE MASTER TRUST INDENTURE AND THE MASTER PAYMENT AND PLEDGE AGREEMENT — Master Trust Indenture and Series 2019 Indenture.”



<sup>1</sup> See clause (iv) under “SECURITY AND SOURCE OF PAYMENT FOR BONDS – Summary of Flow of Funds – Restricted Assets Funds – Application of Amounts in the Clean Water Restricted Assets Fund.”

<sup>2</sup> See clause (iv) under “SECURITY AND SOURCE OF PAYMENT FOR BONDS – Summary of Flow of Funds – Restricted Assets Funds – Application of Amounts in the Drinking Water Restricted Assets Fund.”

## ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Series 2019 Bonds are estimated to be applied as follows:

### Sources:

Series 2019 Par Amount	\$
[Net] Original Issue Premium	_____
<b>Total</b>	<b>\$ _____</b>

### Uses:

Drinking Water Bond Proceeds Fund	\$
Underwriters' Discount	
Series 2019 Costs of Issuance Fund	_____
<b>Total</b>	<b>\$ _____</b>

### Use of Proceeds

The Series 2019 Bond proceeds are expected to be used, together with DWSRF program funds, to fund the projects listed in Appendix I (the "Series 2019 Financings"). Approximately \$100 million of Series 2019 Bond Proceeds and approximately \$697.2 million of other DWSRF program funds are anticipated to be applied to fund the Series 2019 Financings. Series 2019 Bond proceeds will also be used to pay for costs associated with the issuance of the Series 2019 Bonds. At closing the State Water Board anticipates using approximately \$93 million of net bond proceeds to reimburse itself for a portion of DWSRF disbursements for previously financed Series 2019 Financings. Accordingly, the State Water Board expects to expend up to approximately 93% of the net proceeds of the Series 2019 Bonds, after deducting the amount devoted to paying costs of issuance, on the date of closing. The State Water Board anticipates expending all of the remaining proceeds within three years of the issuance of the Series 2019 Bonds. If there are unexpended Series 2019 Bond proceeds in the Series 2019 Bond Proceeds Fund, the unexpended funds will be applied to Series 2019 Financings or other projects eligible to receive Bond proceeds within such three-year period.

## OUTSTANDING BONDS AND FUTURE BOND ISSUANCE

### Outstanding Bonds

IBank has previously issued Bonds for the benefits of the SRFs, of which the following will be outstanding upon the issuance of the Series 2019 Bonds:

<u>Issue</u>	<u>Original Principal Amount</u>	<u>Outstanding Principal Amount</u>	<u>SRF</u>
Revenue Bonds, Series 2016	\$410,735,000	\$371,905,000	CWSRF
Revenue Bonds, Series 2017	450,000,000	419,635,000	CWSRF
Revenue Bonds, Series 2018	449,225,000	449,225,000	CWSRF
Revenue Bonds, Series 2019	85,655,000*	85,655,000*	DWSRF

\* Preliminary, subject to change.

## **Future Bond Issuance**

The State Water Board's Clean Water and Drinking Water State Revolving Funds Debt Management Policy provides that after an analysis of borrower demand and cash flow are completed, and it is determined that cash flow is projected to be insufficient to meet existing and upcoming commitments, staff will seek State Water Board approval and develop a plan to enter the market and issue Bonds.

CWSRF. The State Water Board has authorized \$959,235,000 of additional Bonds to fund projects for the CWSRF and may authorize further additional Bonds to fund projects for the CWSRF. See "THE RECIPIENTS — Project Obligations — Amount of Project Obligations — CWSRF."

DWSRF. Other than the Series 2019 Bonds, the State Water Board has not authorized additional Bonds to fund projects for the DWSRF. The State Water Board may authorize the issuance of additional Bonds to fund projects for the DWSRF. See "THE RECIPIENTS — Project Obligations — Amount of Project Obligations — DWSRF."

## **CASH FLOW SCHEDULE**

The following cash flow schedule sets forth on an annual basis the Pledged Revenues and the Debt Service on the Outstanding Bonds, including the Series 2019 Bonds. The amounts set forth in the cash flow schedule are based upon various assumptions concerning the timely repayment of Pledged Project Obligations in accordance with scheduled repayment amounts and without any prepayments of such amounts and other assumptions. There can be no assurance that the assumptions will be realized. Actual cash flow and debt service coverage may be different than described below. In addition, the cash flow schedules assume that there is no substitution, addition or release of Pledged Project Obligations as permitted under the Indenture. Any such release of Pledged Project Obligations could result in a reduction in the debt service coverage set forth in the Cash Flow Schedule below; provided, however, that the State Water Board would still be required to meet the Coverage Test. See "SECURITY AND SOURCE OF PAYMENT FOR BONDS — Release of Pledged Project Obligations."

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**CASH FLOW SCHEDULE**

<b>Bond Year Ending October 1</b>	<b>Scheduled Repayments from Pledged Project Obligations</b>	<b>Debt Service on Outstanding Bonds</b>	<b><u>Series 2019 Bonds Debt Service</u></b>			<b>Total Debt Service*</b>	<b>Debt Service Coverage*</b>
			<b>Principal*</b>	<b>Interest*</b>	<b>Total*</b>		
2019	\$202,506,810	\$137,928,300	\$3,180,000	\$1,571,901	\$4,751,901	\$142,680,201	1.42
2020	202,641,415	140,460,500	5,660,000	3,889,700	9,549,700	150,010,200	1.35
2021	203,597,561	141,112,350	5,890,000	3,719,900	9,609,900	150,722,250	1.35
2022	205,234,608	142,277,050	6,195,000	3,484,300	9,679,300	151,956,350	1.35
2023	201,149,919	139,135,450	6,515,000	3,236,500	9,751,500	148,886,950	1.35
2024	187,036,821	128,933,100	6,495,000	2,910,750	9,405,750	138,338,850	1.35
2025	165,626,760	113,221,200	6,505,000	2,586,000	9,091,000	122,312,200	1.35
2026	156,452,553	107,062,250	6,185,000	2,260,750	8,445,750	115,508,000	1.35
2027	151,463,976	103,264,500	6,545,000	1,951,500	8,496,500	111,761,000	1.36
2028	148,887,425	101,439,750	6,785,000	1,624,250	8,409,250	109,849,000	1.36
2029	124,796,840	83,803,750	6,725,000	1,285,000	8,010,000	91,813,750	1.36
2030	107,655,336	72,132,250	6,000,000	948,750	6,948,750	79,081,000	1.36
2031	99,247,348	68,066,500	4,305,000	648,750	4,953,750	73,020,250	1.36
2032	83,046,710	57,472,500	3,115,000	433,500	3,548,500	61,021,000	1.36
2033	71,212,106	49,890,000	2,100,000	277,750	2,377,750	52,267,750	1.36
2034	61,206,658	42,498,250	2,100,000	172,750	2,272,750	44,771,000	1.37
2035	57,584,257	40,726,000	1,355,000	67,750	1,422,750	42,148,750	1.37
2036	36,717,818	26,645,750	-	-	-	26,645,750	1.38
2037	16,657,920	11,583,000	-	-	-	11,583,000	1.44
2038	12,000,111	8,087,750	-	-	-	8,087,750	1.48
2039	12,038,040	8,116,500	-	-	-	8,116,500	1.48
2040	11,360,764	7,605,750	-	-	-	7,605,750	1.49
2041	11,382,741	7,621,750	-	-	-	7,621,750	1.49
2042	11,423,823	7,653,750	-	-	-	7,653,750	1.49
2043	10,390,809	6,880,250	-	-	-	6,880,250	1.51
2044	10,403,085	6,885,750	-	-	-	6,885,750	1.51
2045	10,415,483	6,897,500	-	-	-	6,897,500	1.51
2046	10,436,636	6,914,500	-	-	-	6,914,500	1.51
2047	8,539,572	5,485,750	-	-	-	5,485,750	1.56
2048	3,007,834	1,422,750	-	-	-	1,422,750	2.11

\*Preliminary subject to change

## THE SERIES 2019 BONDS

### **General**

The Series 2019 Bonds are issued in fully registered form in the denominations of \$5,000 and any integral multiple thereof. The Series 2019 Bonds will bear interest from their date of issuance, and will mature on the dates and in the principal amounts set forth on the inside cover page hereof.

Interest on the Series 2019 Bonds is payable on \_\_\_\_\_, 2019 and semiannually thereafter on \_\_\_\_\_ and \_\_\_\_\_ of each year. The record date for the payment of such interest on the Series 2019 Bonds is the close of business on the fifteenth day of the month immediately preceding such interest payment date. Interest shall be calculated on the basis of a 360 day year consisting of twelve 30 day months.

In any case where the date of maturity of interest on or principal of the Series 2019 Bonds or the date fixed for redemption of any Series 2019 Bonds shall be on a day that is not a Business Day, then payment of interest or principal and premium, if any, need not be made on such date but may be made (without additional interest) on the next succeeding Business Day, with the same force and effect as if made on the date of maturity or the date fixed for redemption, as the case may be. Certain state holidays may fall on days that are not banking holidays, and can vary from year to year.

So long as the Series 2019 Bonds are registered in the name of Cede & Co., as nominee of DTC, principal and interest on the Series 2019 Bonds are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Direct Participants in DTC for disbursement to the Beneficial Owners of the Series 2019 Bonds. See APPENDIX G — “BOOK-ENTRY-ONLY SYSTEM.”

To the extent the Series 2019 Bonds are not registered in the name of Cede & Co., as nominee of DTC, interest on the Series 2019 Bonds will be payable by check or draft of the Trustee mailed on each interest payment date to each registered owner of Series 2019 Bonds as of the close of business on the fifteenth day of the month immediately preceding an interest payment date and principal of the Series 2019 Bonds will be payable at the office of the Trustee in Sacramento, California.

### **Designation as Green Bonds**

IBank, at the request of the State Water Board, is issuing the Series 2019 Bonds as “Green Bonds” due to the projects’ adherence to the standards of the Federal and State Safe Drinking Water Acts. The Series 2019 Bonds are issued to help local governments and other public entities finance water infrastructure projects throughout the State to bring communities into or maintain compliance with the Safe Drinking Water Act. The goal of this law is to ensure safe drinking water and protect public health. The purpose of identifying the Series 2019 Bonds as Green Bonds is to allow investors to invest directly in bonds which finance such beneficial drinking water projects. Holders of Series 2019 Bonds do not assume any specific risk with respect to any of the funded projects. See “SECURITY AND SOURCE OF PAYMENT FOR BONDS” herein.

The State Water Board will report annually in its Annual Report to U.S. EPA on the expenditure of net proceeds of the Series 2019 until all proceeds have been fully expended. The report will be in substantially the same form as is presented in Appendix I hereto. See “THE STATE REVOLVING FUND PROGRAMS — Administration of SRFs — U.S. EPA Reports.”

### **Redemption**

*Optional Redemption.* The Series 2019 Bonds maturing on or after \_\_\_\_\_, 20\_\_ are subject to redemption prior to their respective stated maturities, at the option of the State Water Board from lawfully available funds as a whole or in part (in such order of maturity as shall be selected by the Trustee upon direction by the State Water Board and by lot within a maturity) on any date, on or after \_\_\_\_\_, 20\_\_ at a redemption price equal to 100% of the principal amount of the Series 2019 Bonds to be redeemed, together with interest accrued thereon to the date fixed for redemption.

*Notice of Redemption.* The Trustee shall give in the name of IBank notice to the Owners of the Series 2019 Bonds, or portions thereof, so called, as provided in the Master Trust Indenture, at least thirty (30) but no more than sixty (60) days before the date fixed for redemption.

In the case of redemption of Series 2019 Bonds at the option of IBank at the direction of the State Water Board, a notice of redemption may state (i) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date, or (ii) that IBank retains the right to rescind the redemption notice on or prior to the scheduled redemption date (in either case, a "Conditional Redemption"), and such notice and redemption will be of no effect if such moneys are not so deposited or if the notice is rescinded. Any Conditional Redemption may be rescinded in whole or in part at any time prior to the fifth Business Day preceding the redemption date if IBank delivers a written direction to the Trustee to rescind the redemption notice.

So long as a book entry system is used for determining beneficial ownership of the Series 2019 Bonds, the Paying Agent is to send such notice to DTC or to Cede & Co., as nominee for DTC. DTC was organized to hold securities of its participants (“Participants”). Any failure of DTC to advise any Participant, or of any Participant or indirect participant to notify the Beneficial Owner, of any such notice and its content or effect does not affect the validity of the redemption of the Series 2019 Bonds called for redemption or any other action premised on that notice.

### **Registration, Transfer and Exchange**

The Series 2019 Bonds are issued in fully registered form and are initially to be registered in the name of Cede & Co., as nominee for DTC, as securities depository for the Series 2019 Bonds. Purchases by Beneficial Owners of the Series 2019 Bonds are to be made in book entry form in the principal amount of \$5,000 or any integral multiple thereof. Payments to Beneficial Owners are to be made as described in APPENDIX G. The Series 2019 Bonds may be exchanged or transferred at the principal office of the Paying Agent. Transfers or exchanges

by Beneficial Owners are to be made as described below under APPENDIX G — “BOOK-ENTRY-ONLY SYSTEM.”

### **Book-Entry-Only System**

The Depository Trust Company, New York, New York, will act as securities depository for the Series 2019 Bonds. The ownership of one fully registered Series 2019 Bond for each maturity set forth on the inside cover page hereof, in the aggregate principal amount of the Series 2019 Bonds maturing on that date, will be registered in the name of Cede & Co., as nominee of DTC. See APPENDIX G — “BOOK-ENTRY-ONLY SYSTEM” for a description of DTC and the Book Entry Only System.”

## **TAX MATTERS**

### **Opinion of Bond Counsel**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to IBank, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2019 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2019 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by IBank, the State Water Board and each Recipient of Series 2019 Bond funded Project Obligations in connection with the Series 2019 Bonds, and Bond Counsel has assumed compliance by each of IBank, the State Water Board and each Recipient of Series 2019 Bond Funded Project Obligations with certain ongoing covenants, applicable to it, to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2019 Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to IBank, under existing statutes, interest on the Series 2019 Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the Series 2019 Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Series 2019 Bonds.

## **Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2019 Bonds in order that interest on the Series 2019 Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2019 Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2019 Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The State Water Board and, to the extent within its control, IBank, and each Recipient of Series 2019 Bond Funded Project Obligations have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Series 2019 Bonds from gross income under Section 103 of the Code.

## **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2019 Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2019 Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2019 Bonds.

Prospective owners of the Series 2019 Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2019 Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

## **Original Issue Discount**

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a Series 2019 Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10 percent of such maturity was sold to the public, i.e., a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the Series 2019 Bonds. In general, the issue price for each maturity of Series 2019 Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Series 2019 Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to

the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2019 Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2019 Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

### **Bond Premium**

In general, if an owner acquires a Series 2019 Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2019 Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2019 Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

## **Information Reporting and Backup Withholding**

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Series 2019 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2019 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2019 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s Federal income tax once the required information is furnished to the Internal Revenue Service.

## **Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2019 Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2019 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2019 Bonds. Prospective purchasers of the Series 2019 Bonds should consult their own tax advisors regarding the foregoing matters.

## **MISCELLANEOUS**

### **Ratings**

S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC, Moody’s Investors Service, Inc. and Fitch Ratings, Inc. (collectively, the “Rating Agencies”) have assigned the Series 2019 Bonds a rating of “AAA”, “Aaa” and “AAA”, respectively. Such ratings reflect only the views of the Rating Agencies, and an explanation of the significance of such ratings may be obtained from S&P Global Ratings at 55 Water Street, New York, New York 10014, telephone: (212) 438-2000, Moody’s Investors Service, Inc. at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, telephone: (212) 553-0300, and Fitch Ratings, Inc. at 33 Whitehall Street, New York, New York 10004, telephone: (212) 908-0500. The Rating Agencies are independent of any investment banking firm, bank or similar institution.

Generally, rating agencies base their ratings on materials and information furnished to the rating agencies and on investigations, studies and assumptions by the rating agencies. The debt ratings are not a recommendation to purchase, sell or hold a security, inasmuch as they do not comment as to market price or suitability for a particular investor. There can be no assurance that such ratings will continue for any given period of time or that they will not be lowered, suspended or withdrawn entirely by the rating agencies. Any such downward changes in or suspension or withdrawal of such ratings may have an adverse effect on the marketability of and secondary market price for the Series 2019 Bonds.

### **Underwriting**

The Series 2019 Bonds offered hereby are being purchased from IBank by the Underwriters named on the cover page of this Official Statement (the “Underwriters”). The State Treasurer is the agent for sale for IBank. Piper Jaffray & Co. and Morgan Stanley & Co. LLC are acting as the representatives of the Underwriters with respect to the Series 2019 Bonds. The Underwriters have agreed to purchase the Series 2019 Bonds at a purchase price of \$\_\_\_\_\_ (which amount is comprised of the par amount of the Series 2019 Bonds of \$\_\_\_\_\_, plus a [net] original issue premium of \$\_\_\_\_\_, less an underwriters’ discount of \$\_\_\_\_\_). The Bond Purchase Agreement provides that the Underwriters shall purchase all of the Series 2019 Bonds offered hereby if any are purchased, and that the obligation to make such purchase is subject to the approval of certain legal matters by Bond Counsel and certain other conditions. The initial public offering price may be changed from time to time by the Underwriters.

Several of the Underwriters have provided letters to the State Treasurer setting forth certain information pertaining to the Underwriters, including, for certain Underwriters, information relating to their retail distribution practices, for inclusion in this Official Statement, which letters are set forth in APPENDIX H — “LETTERS SUBMITTED BY UNDERWRITERS.” Neither IBank nor the State Water Board guarantee the accuracy or completeness of the information contained in such letters and the information therein is not to be construed as a representation of IBank, the State Water Board or any Underwriter other than the Underwriter providing such representation.

### **Litigation - State Water Board**

There is not now pending, nor to the knowledge of the State Water Board, threatened any litigation against the State Water Board, seeking to restrain or enjoin the issuance or delivery of the Series 2019 Bonds, or questioning or affecting the validity of the Series 2019 Bonds or the proceedings or the authority under which they are to be issued, or which in any manner questions the right of the State Water Board to enter into the Master Payment and Pledge Agreement or to pledge assets to secure the Series 2019 Bonds in the manner provided in such document.

### **Litigation - IBank**

There is not now pending, nor to the knowledge of IBank, threatened any litigation against IBank, seeking to restrain or enjoin the issuance or delivery of the Series 2019 Bonds, or questioning or affecting the validity of the Series 2019 Bonds or the proceedings or the authority

under which they are to be issued, or which in any manner questions the right of IBank to enter into the Master Trust Indenture, the Series 2019 Indenture, or the Master Payment and Pledge Agreement or to secure the Series 2019 Bonds in the manner provided in such documents.

### **Legal Matters**

The approving opinion of Hawkins Delafield & Wood LLP, Los Angeles, California, Bond Counsel to IBank, in substantially the form attached to this Official Statement as Appendix F, will be delivered upon the issuance of the Series 2019 Bonds. Certain legal matters with respect to the Official Statement will be passed upon by Hawkins Delafield & Wood LLP, Los Angeles, California, Disclosure Counsel to IBank. Certain legal matters will be passed upon for the State Water Board by its Chief Counsel, Michael A. M. Lauffer, Esq., and for IBank by its General Counsel, William Pahland, Esq. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Los Angeles, California.

### **Proposed Legislation**

From time to time federal or State legislation is proposed or introduced that could impact the SRF programs. No assurances can be given that such legislation will not be proposed, introduced or enacted in the future.

### **Municipal Advisor**

The IBank has utilized the services of Hilltop Securities, Inc., as municipal advisor in connection with the issuance and sale of the Series 2019 Bonds. Although Hilltop Securities, Inc. has assisted in the preparation of the Official Statement, Hilltop Securities, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement.

### **Financial Statements**

The audited financial statements of the CWSRF and DWSRF for the fiscal year ended June 30, 2018, which are included in APPENDIX B — “AUDITED FINANCIAL STATEMENTS OF THE CLEAN WATER STATE REVOLVING FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2018 AND 2017” and APPENDIX C — “AUDITED FINANCIAL STATEMENTS OF THE DRINKING WATER STATE REVOLVING FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2018 AND 2017,” have been audited by CliftonLarsonAllen LLP, independent certified public accountants. The State Water Board has obtained the consent of CliftonLarsonAllen LLP to the inclusion of the foregoing audited financial statements as appendices to this Official Statement.

### **Continuing Disclosure**

The State Water Board has covenanted for the benefit of the holders and Beneficial Owners of the Series 2019 Bonds to provide certain financial information and operating data relating to the State Water Board by not later than each February 1 following the end of the State Water Board’s fiscal year (which fiscal year as of the date hereof ends June 30) (the “Annual

Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the State Water Board with the Trustee and with the MSRB. Any notice events will be filed by the State Water Board with the Dissemination Agent for filing with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of material events is stated in APPENDIX E — “FORM OF CONTINUING DISCLOSURE AGREEMENT.” Pursuant to the Master Payment and Pledge Agreement, failure of the State Water Board to comply with its obligations under the Continuing Disclosure Agreement will not be considered an event of default under the Master Payment and Pledge Agreement. However, the Trustee or any holder 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 State Water Board to comply with its obligations under the Continuing Disclosure Agreement. The State Water Board has determined that no financial or operating data concerning IBank is material to an evaluation of the offering of the Series 2019 Bonds or to any decision to purchase, hold, or sell the Series 2019 Bonds. Accordingly, neither the State Water Board nor IBank shall provide any such information. IBank has not undertaken any continuing disclosure obligations with respect to the Series 2019 Bonds and has no duty to enforce the State Water Board’s undertakings pursuant to the Continuing Disclosure Agreement.

#### **Other Matters; Additional Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. This Official Statement contains descriptions of, and information regarding IBank, the State Water Board, the CWSRF, the DWSRF, the application of the proceeds of the Series 2019 Bonds, and the security and sources of payment for the Series 2019 Bonds. Certain information in this Official Statement involves projections and assumptions which are not represented as fact and such projections and assumptions may not prove to be accurate. Such descriptions and information do not purport to be comprehensive and the descriptions of documents contained herein are qualified in their entirety by reference to such documents. Copies of the Master Trust Indenture, the Series 2019 Indenture, the Master Payment and Pledge Agreement, and other documents referred to in this Official Statement are available upon request to the State Water Resources Control Board, Division of Financial Assistance, 1001 I Street, 16th Floor, Sacramento, California 95814, Attention: James Maughan, Assistant Deputy Director.

This Official Statement has been reviewed and approved by the State Water Board. Concurrent with the delivery of the Series 2019 Bonds, the State Water Board will furnish a certificate executed on its behalf by its Executive Director to the effect that this Official Statement (excluding any information regarding IBank or DTC) does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading.

#### **STATE WATER RESOURCES CONTROL BOARD**

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By: Eileen Sobeck  
Executive Director

## APPENDIX A

### PLEDGED PROJECT OBLIGATIONS

#### CWSRF PLEDGED PROJECT OBLIGATIONS

The following table sets forth the CWSRF Pledged Project Obligations, their respective balances and certain other information respecting the Pledged Project Obligations as of December 31, 2018:

Borrower	Agreement No.	Principal Obligation Balance as of December 31, 2018	Combined Percent of Recipient Pledged Project Obligations	Final Maturity of Obligation	CWSRF Legacy Project Obligation
Brawley, City of	08848	\$10,558,037	0.45%	1/1/2032	
Brentwood, City of	99820	9,125,180	0.39%	1/2/2023	*
Chico, City of	07827	25,279,617	1.09%	12/31/2029	
Coachella Sanitary District	04814	12,112,197	0.52%	3/31/2027	
Colusa, City of	07828	11,700,113	0.50%	1/15/2039	
Corona, City of	13830	10,702,403		8/31/2046	
Corona, City of	02827	12,349,534	0.99%	9/30/2025	
Delta Diablo	14814	11,072,451		11/1/2046	
Delta Diablo	10818	4,011,192		4/3/2033	
Delta Diablo	08819	3,806,905	0.81%	12/31/2030	
Dixon, City of	14812	26,040,751	1.12%	12/1/2036	
East Bay Municipal Utility District	07825	11,086,984	0.48%	4/1/2028	
Eastern Municipal Water District	09809	33,273,745		3/16/2033	
Eastern Municipal Water District	08845	27,596,783	2.62%	7/5/2032	
El Paso de Robles, City of	12820	39,747,256	1.71%	9/1/2035	
El Toro Water District	12821	22,290,739	0.96%	12/31/2034	
Fallbrook Public Utility District	12807	27,191,004	1.17%	3/31/2036	
Fontana, City of	08807	2,694,012		6/30/2028	
Fontana, City of	08805	2,131,768		8/29/2028	
Fontana, City of	07811	5,022,406	0.42%	3/31/2028	
Fresno, City of	14817	31,286,070	1.34%	7/12/2046	
Galt, City of	09856	11,161,522	0.48%	12/28/2030	
Hayward, City of	05807	27,277,116	1.17%	9/30/2028	
Hughson, City of	08838	13,406,433	0.58%	5/1/2030	
Inland Empire Utilities Agency	13835	22,799,294		8/31/2049	
Inland Empire Utilities Agency	11813	22,674,389		12/31/2034	
Inland Empire Utilities Agency	08850	3,185,650		8/15/2030	
Inland Empire Utilities Agency	08849	3,146,353		8/15/2030	
Inland Empire Utilities Agency	08837	19,582,400		2/28/2032	
Inland Empire Utilities Agency	07822	3,438,833		3/31/2029	
Inland Empire Utilities Agency	06810	8,312,939		6/30/2028	
Inland Empire Utilities Agency	03808	2,192,161		6/30/2025	
Inland Empire Utilities Agency	02809	1,859,638	3.75%	7/15/2024	
Ironhouse Sanitary District	08820	38,190,107	1.64%	10/18/2031	
La Canada Flintridge, City of	04815	13,664,356		10/31/2027	
La Canada Flintridge, City of	02804	5,662,111	0.83%	3/31/2025	
Laguna County Sanitation District	01802	2,774,001	0.12%	7/1/2023	*
Linda County Water District	09800	22,038,690	0.95%	4/1/2042	
Lompoc, City of	06811	50,383,622	2.17%	8/31/2029	
Los Angeles County Sanitation District	99822	13,293,080		10/31/2023	*
Los Angeles County Sanitation District	99801	4,805,156		12/31/2022	*
Los Angeles County Sanitation District	98818	12,706,868		5/31/2024	*
Los Angeles County Sanitation District	97830	24,515,971		12/31/2022	*
Los Angeles County Sanitation District	13811	10,799,746		8/31/2035	
Los Angeles County Sanitation District	09857	8,827,328		1/30/2031	
Los Angeles County Sanitation District	08816	53,670,839		7/31/2031	
Los Angeles County Sanitation District	08801	2,376,275		12/31/2029	
Los Angeles County Sanitation District	07808	3,656,072		3/31/2025	
Los Angeles County Sanitation District	07802	8,769,410		3/31/2028	
Los Angeles County Sanitation District	03848	5,154,757		10/31/2026	
Los Angeles County Sanitation District	03847	5,619,381		10/31/2026	

<b>Borrower</b>	<b>Agreement No.</b>	<b>Principal Obligation Balance as of December 31, 2018</b>	<b>Combined Percent of Recipient Pledged Project Obligations</b>	<b>Final Maturity of Obligation</b>	<b>CWSRF Legacy Project Obligation</b>
Los Angeles County Sanitation District	03846	3,234,260		10/31/2026	
Los Angeles County Sanitation District	02812	4,018,695		4/30/2025	
Los Angeles County Sanitation District	00820	11,638,680		11/30/2023	
Los Angeles County Sanitation District	00807	3,286,434	7.58%	12/31/2024	*
Los Angeles, City of	00817	81,632,895	3.51%	8/9/2024	
Merced, City of	08843	21,717,206	0.93%	9/30/2031	
Millbrae, City of	09835	19,225,478	0.83%	11/30/2031	
Modesto, City of	11825	112,142,733	4.82%	12/1/2035	
Nevada County Sanitation District #1	06807	9,489,579		1/12/2028	
Nevada County Sanitation District #1	06806	6,162,276	0.67%	11/23/2027	
Novato Sanitary District	07824	59,463,471	2.56%	12/31/2030	
Oceanside, City of	00829	23,411,130	1.01%	1/26/2026	*
Orange County Water District	11821	134,338,171		1/31/2036	
Orange County Water District	03817	1,758,240		6/1/2026	
Orange County Water District	03816	61,560,665		12/31/2027	
Orange County Water District	03815	2,236,165		6/1/2026	
Orange County Water District	03813	1,646,089		4/1/2026	
Orange County Water District	02814	2,886,490	8.79%	6/1/2024	
Palo Alto, City of	09814	5,666,146		11/30/2030	
Palo Alto, City of	07814	4,950,000	0.46%	6/30/2029	
Petaluma, City of	05803	80,031,553	3.44%	4/9/2029	
Pismo Beach, City of	03810	4,874,076	0.21%	2/25/2026	
Redding, City of	13836	6,596,154		3/31/2036	
Redding, City of	11849	9,639,263		12/30/2033	
Redding, City of	11810	4,873,823		4/1/2034	
Redding, City of	11809	5,785,034		3/31/2030	
Redding, City of	11800	14,235,289		4/15/2033	
Redding, City of	09824	6,860,298		12/15/2031	
Redding, City of	07826	12,318,233		3/31/2030	
Redding, City of	07819	2,812,344		10/31/2028	
Redding, City of	06803	2,203,978		9/30/2027	
Redding, City of	00809	5,165,993	3.03%	2/20/2023	*
Reedley, City of	07810	16,751,265	0.72%	8/2/2029	
San Clemente, City of	12809	12,036,591	0.52%	12/31/2034	
San Diego, City of	99827	1,393,491		10/15/2021	*
San Diego, City of	98838	8,098,790		5/12/2022	*
San Diego, City of	97807	1,273,455		3/24/2020	*
San Diego, City of	12817	4,777,685		11/3/2036	
San Diego, City of	12816	6,273,413		4/30/2035	
San Diego, City of	12811	6,801,924		3/10/2034	
San Diego, City of	11832	12,628,206		6/20/2033	
San Diego, City of	09861	27,739,289		9/30/2035	
San Diego, City of	06804	5,592,223		3/30/2026	
San Diego, City of	01809	3,824,590		1/21/2024	
San Diego, City of	00826	2,420,281	3.47%	1/31/2023	*
San Leandro, City of	11806	37,616,782	1.62%	7/31/2035	
Santa Ana Watershed Project Authority	11822	12,124,372	0.52%	12/29/2032	
Santa Margarita Water District	02826	4,185,799	0.18%	11/16/2027	
Silicon Valley Clean Water	11845	28,810,547		10/31/2036	
Silicon Valley Clean Water	11827	9,125,927	1.63%	6/30/2033	
Sonoma Valley County Sanitation District	10815	2,618,154		8/29/2034	
Sonoma Valley County Sanitation District	10814	1,605,403		11/15/2031	
Sonoma Valley County Sanitation District	06801	3,564,417	0.33%	11/5/2027	
South San Francisco, City of	97827	12,284,916		8/1/2022	*
South San Francisco, City of	07816	5,106,377		7/15/2028	
South San Francisco, City of	02824	10,052,902	1.18%	4/30/2026	
Tahoe-Truckee Sanitation Agency	03804	25,763,676	1.11%	10/31/2027	
Thousand Oaks, City of	99811	7,619,364	0.33%	12/22/2022	*
Turlock, City of	11836	20,613,982		12/1/2034	
Turlock, City of	11833	12,530,387	1.42%	4/1/2034	
Union Sanitary District	13814	12,039,025		3/31/2037	
Union Sanitary District	10817	5,052,293		7/31/2033	
Union Sanitary District	10808	7,196,031		1/15/2033	
Union Sanitary District	07829	6,946,332		1/26/2030	
Union Sanitary District	01815	4,231,348	1.52%	8/30/2023	
Vacaville, City of	11818	63,163,792		6/30/2035	

<b>Borrower</b>	<b>Agreement No.</b>	<b>Principal Obligation Balance as of December 31, 2018</b>	<b>Combined Percent of Recipient Pledged Project Obligations</b>	<b>Final Maturity of Obligation</b>	<b>CWSRF Legacy Project Obligation</b>
Vacaville, City of	11817	4,497,198		9/30/2036	
Vacaville, City of	11812	26,367,609		8/31/2033	
Vacaville, City of	00801	30,267,429	5.34%	7/1/2025	*
Victor Valley Wastewater Rec Authority	10810	11,848,943	0.51%	6/30/2032	
Visalia, City of	13818	94,094,496	4.04%	9/13/2047	
Water Replenishment District of Southern California	D1601014	51,462,957	2.21%	12/31/2048	
Woodland, City of	14805	16,389,766	0.70%	12/31/2046	
Yucaipa Valley Water District	09864	7,486,504		12/31/2032	
Yucaipa Valley Water District	05810	25,720,865	1.43%	9/10/2028	
<b>Total</b>		<b><u>\$2,160,883,283</u></b>			

\* The indicated Project Obligations are CWSRF Legacy Project Obligations. See “THE RECIPIENTS — Project Obligations — Legacy Project Obligations — CWSRF.”

### DWSRF PLEDGED PROJECT OBLIGATIONS

The following table sets forth the DWSRF Pledged Project Obligations, their respective balances and certain other information respecting the DWSRF Pledged Project Obligations as of December 31, 2018:

<b>Borrower</b>	<b>Agreement No.</b>	<b>Principal Obligation Balance as of December 31, 2018</b>	<b>Combined Percent of Recipient Pledged Project Obligations</b>	<b>Final Maturity of Obligation</b>	<b>DWSRF Legacy Project Obligation</b>
El Dorado Irrigation District	2002CX140	\$3,223,458		7/1/2028	*
El Dorado Irrigation District	2002CX141	1,729,130		7/1/2027	*
El Dorado Irrigation District	2002CX143	3,292,941	0.35%	10/1/2028	*
Fresno, City of	2006CX150	1,365,123		10/1/2031	*
Fresno, City of	2008SWX101	872,432	0.10%	1/1/2032	*
Los Angeles, City of Acting by and through the Department of Water & Power	1997CX101	5,723,223		1/1/2024	*
Los Angeles, City of Acting by and through the Department of Water & Power	2002CX139	16,087,674		4/1/2030	*
Los Angeles, City of Acting by and through the Department of Water & Power	2014CX102	7,882,024	1.28%	1/1/2047	*
Olivenhain Municipal Water District	2011CX111	14,252,283	0.61%	7/1/2034	*
Placer County Water Agency	2007CX145	11,627,606		4/1/2029	*
Placer County Water Agency	2012CX108	6,846,737	0.79%	7/1/2035	*
San Diego, City of	2010CX120	13,099,038		1/1/2032	*
San Diego, City of	2010CX122	14,014,250	1.17%	7/1/2031	*
San Luis Obispo County Flood Control and Water Conservation District	2002CX138	16,992,204	0.73%	7/1/2030	*
Santa Barbara, City of	2000CX111	6,822,495		7/1/2025	*
Santa Barbara, City of	2010CX123	23,418,776	1.30%	7/1/2035	*
Yuba City, City of	2010CX101	4,447,483		7/1/2032	*
Yuba City, City of	2010CX102	13,714,020	0.78%	7/1/2032	*
<b>Total</b>		<b><u>\$165,410,897</u></b>			

\* The indicated Project Obligations are DWSRF Legacy Project Obligations. See “THE RECIPIENTS — Project Obligations — Legacy Project Obligations — DWSRF.”

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**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS OF THE CLEAN WATER STATE**  
**REVOLVING FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2018 AND 2017**

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**CALIFORNIA STATE WATER RESOURCES  
CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
Sacramento, California**

**FINANCIAL STATEMENTS  
and SINGLE AUDIT REPORTS**

June 30, 2018 and 2017

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
California State Water Resources Control Board  
Sacramento, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund), an enterprise fund of the State of California, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the California State Water Resources Control Board, Water Pollution Control Revolving Fund as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

As discussed in Note 1 – Definition of Reporting Entity, the basic financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the California State Water Resources Control Board that is attributable to the transactions of the California State Water Resources Control Board, Water Pollution Control Revolving Fund. They do not purport to, and do not, present fairly the financial position of the California State Water Resources Control Board or the State of California as of June 30, 2018 and 2017, and the changes in their financial position and their cash flows, where applicable, for the years then ended, in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Required Supplementary Information***

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

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California State Water Resources Control Board, Water Pollution Control Revolving Fund’s basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018, on our consideration of the Water Pollution Control Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Water Pollution Control Revolving Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Water Pollution Control Revolving Fund's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
October 1, 2018

**California State Water Resources Control Board  
Water Pollution Control Revolving Fund  
State Revolving Fund Program**

**Management's Discussion & Analysis**

The following Management's Discussion and Analysis is a required supplement to the California State Water Resources Control Board's (State Water Board), Water Pollution Control Revolving Fund (Clean Water State Revolving Fund program) (CWSRF) financial statements. It describes and analyzes the financial position of the CWSRF providing an overview of the CWSRF's activities for the years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with information that is in the financial statements and notes, which follow this section.

**Financial Highlights**

- Net position increased by \$94.5 million to a total of \$4.1 billion in 2018, which was \$18.6 million less than the increase of \$113.1 million in 2017. The smaller increase in net position is a direct result of an increase in capital contributions for principal forgiveness loan disbursements.
- Capital contributions increased by \$7 million to \$72.8 million as compared to \$65.8 million in 2017. The increase in capital contributions was mostly a result of more capital available from EPA capitalization grants for principal forgiveness loan disbursements. Capital contributions from EPA capitalization grant funds that were forgiven increased by \$21.7 million to \$26.5 million as compared to \$4.8 million in 2017.
- Cash and cash equivalents increased by \$177 million in 2018 as compared to an increase of \$308 million in 2017. The increase in 2018 was mostly the result of an increase in cash from the issuance of the Series 2018 Revenue Bond.
- Loans receivable increased by \$398 million to \$4.4 billion in 2018 and increased by \$309 million in 2017. The larger increase in 2018 mostly reflects an increase in loan disbursements.
- On March 8, 2018, the CWSRF issued California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2018 for \$449 million at a premium of \$77.5 million. The Series 2018 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects.
- Restricted portion of net position increased by \$888 million to \$2.4 billion in 2018 as compared to a decrease of \$100 million in 2017. The increase in 2018 reflects the greater pledged loan requirements of the Series 2018 Revenue Bonds. The decrease in 2017 reflects the decrease in notes receivables for loans pledged to the Series 2012, 2016 and 2017 Revenue bonds as a result of repayments received and the related debt service payments.

## Using this Annual Financial Report

The financial statements included in this annual financial report are those of the CWSRF. As discussed in Note 1, Definition of Reporting Entity, the basic financial statements of the CWSRF are intended to present the financial position, changes in financial position, and cash flows of only that portion of the financial reporting entity of the State Water Board that is attributable to the transactions of the CWSRF. They do not purport to present the financial position of the State Water Board or the State of California (State) as of June 30, 2018 and 2017 and the change in their financial positions and their cash flows for the years then ended.

### Overview of Financial Statements

This discussion and analysis is an introduction to the CWSRF financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other supplementary information.

The financial statements of the CWSRF are presented as a special purpose government engaged only in business type activities - providing loans to other governmental entities. The statements provide both short-term and long-term information about the CWSRF's financial position, which assists the reader in assessing the CWSRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following three statements:

- The *Statements of Net Position* present information on all of the CWSRF's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of the CWSRF is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Position* present information which reflects how the CWSRF's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statements of Cash Flows* report the CWSRF's cash flows from operating activities, noncapital financing activities, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

### Net Position

In 2018, the CWSRF's net position continued to strengthen increasing by \$94.5 million, or 2.3%, to \$4.1 billion at June 30, 2018 as compared to an increase of \$113.1 million, or 2.9%, the previous year. The increase in net position was \$18.6 million lower than in the previous year, mostly reflecting an increase in capital contributions for principal forgiveness loan disbursements from EPA capitalization grants.

The current portion of the CWSRF's liabilities was \$100 million in 2018 and \$57 million in 2017. Current liabilities primarily correspond to continuing principal payments for the Series 2012, 2016, 2017 and 2018 Revenue Bonds. Noncurrent liabilities increased by \$441.5 million in 2018 as compared to an increase of \$481 million in 2017. The increase in 2018 is a result of the issuance of the Series 2018 Revenue Bonds while the increase in 2017 is the result of the issuance of the Series 2017 Revenue Bonds.

A segment of the CWSRF's net position is subject to external restriction due to the debt service requirements of the Series 2012, 2016, 2017 and 2018 Revenue Bonds. The net position that is restricted increased in 2018 by \$888 million to \$2.4 billion, or 57.9%, as compared to a decrease in 2017 of \$100 million to \$1.5 billion, or 6.1%. The increase in 2018 was primarily due to an increase in pledged loan receivables to secure the issuance of the Series 2018 Revenue Bonds. The decrease in 2017 was primarily due to several early payoffs of loan receivables and ongoing debt service payments.

Of the total restricted net position, \$2.210 billion in 2018 and \$1.377 billion in 2017 represent the balance of outstanding loans that were pledged as security to the Series 2012, 2016, 2017 and 2018 Revenue Bond debt service. The principal and interest received during the fiscal year from these loans is used to make the semi-annual debt service payments on the revenue bonds.

The CWSRF received total payments on pledged loans of \$143.7 million (\$117.5 million of principal and \$26.2 million of interest) in 2018 of which the debt service payment was \$68.8 million (\$27.3 million of principal and \$41.5 million of interest). In 2017, the CWSRF received total payments on pledged loans of \$234.3 million (\$207.3 million of principal and \$27 million of interest) of which the debt service payments were \$31.5 million (\$13 million of principal and \$18.5 million of interest).

The remaining \$211.7 million of restricted net position in 2018 and \$157.6 million in 2017 represent pledged loan repayments, which are restricted for future loan disbursements and/or debt service payments. Any excess of principal and interest received over the required debt service may be used for future loan disbursements and/or released from restriction in the event that certain criteria are met.

**Table 1****Net Position  
(in thousands)**

	June 30,		
	2018	2017	2016
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,217,225	\$ 1,039,972	\$ 731,798
Loans receivable	4,408,127	4,010,218	3,700,721
All other assets	32,805	28,525	24,341
<b>Total assets</b>	<b>5,658,157</b>	<b>5,078,715</b>	<b>4,456,860</b>
<b>LIABILITIES</b>			
Current liabilities	100,318	56,921	29,157
Noncurrent liabilities	1,430,322	988,785	507,846
<b>Total liabilities</b>	<b>1,530,640</b>	<b>1,045,706</b>	<b>537,003</b>
<b>NET POSITION</b>			
Restricted			
Debt service	211,650	157,601	66,876
Security for revenue bonds	2,210,416	1,376,682	1,567,358
Subtotal restricted assets	<b>2,422,066</b>	<b>1,534,283</b>	<b>1,634,234</b>
Unrestricted	1,705,451	2,498,726	2,285,623
<b>Total net position</b>	<b>\$ 4,127,517</b>	<b>\$ 4,033,009</b>	<b>\$ 3,919,857</b>

**Changes in Net Position**

Program revenue for the CWSRF in 2018 was \$64.2 million of which \$33 million is restricted for debt service. Program revenue in 2017 was \$59.6 million of which \$25.3 million was restricted for debt service. In 2018, program revenue increased by \$4.6 million or 7.67% and in 2017 increased by \$2 million or 3.43%. In 2018 and 2017, program revenue reflects an increase in outstanding receivables and the interest earned year over year on those receivables.

In 2018, general revenue was \$12.9 million, which was an increase of \$6.9 million or 115%, when compared to \$6.0 million in 2017. In 2017, general revenue increased \$4.6 million or 331% compared to \$1.4 million in 2016. The increase in investment income during 2018 and 2017 reflects increased earnings that resulted from more cash on deposit and higher interest rates earned on those deposits.

Total expenses increased by \$37.1 million in 2018 as compared to a increase of \$6 million in 2017. The increase in 2018 was primarily due to an increase in principal forgiveness expenses. The increase in 2017 was primarily due to an increase in revenue bond expenses.

Total capital contributions increased by \$7 million, or 10.6% in 2018 when compared to 2017. In 2017, total capital contributions decreased by \$9 million or 12% when compared to 2016.

In 2018, EPA capitalization grant contributions decreased by \$14.7 million or 24% when compared to 2017. In 2017, EPA capitalization grant contributions decreased by \$6 million or 9% when compared to 2016. The 2018 and 2017 decrease was primarily due to a decrease in available contributions from EPA capitalization grants.

In 2018, EPA capitalization grant contributions for principal forgiveness loans increased by \$21.7 million when compared to 2017. In 2017, EPA capitalization grant contributions for principal forgiveness loans decreased by \$3 million when compared to 2016. The 2018 increase was primarily due to an increase in available contributions for principal forgiveness loans from EPA capitalization grants. The 2017 decrease was primarily due to a decrease in available contributions from EPA capitalization grants. The loans made with these funds were forgiven as disbursed and must be repaid if certain loan conditions are not met.

**Table 2**

**Changes in Net Position**  
(in thousands)

	Year Ended June 30,		
	2018	2017	2016
<b>Revenues</b>			
Program revenues:			
Loan interest income	\$ 64,185	\$ 59,615	\$ 57,638
General revenues:			
Investment income	12,950	6,020	1,396
<b>Total revenues</b>	<b>77,135</b>	<b>65,635</b>	<b>59,034</b>
<b>Expenses</b>			
Program expenses:			
Administrative expenses	393	(844)	329
Capitalization Principal Forgiveness expense	26,510	4,790	7,792
Revenue bond interest expense	26,587	12,458	2,199
Revenue bond issuance costs	1,951	1,896	1,894
<b>Total expenses</b>	<b>55,441</b>	<b>18,300</b>	<b>12,214</b>
<b>Increase in net position before contributions</b>	<b>21,694</b>	<b>47,335</b>	<b>46,820</b>
<b>Capital contributions:</b>			
EPA capitalization grant	46,261	60,966	66,846
EPA capitalization grant Principal Forgiveness	26,510	4,790	7,792
State and other contributions	43	61	68
Subtotal capital contributions	<b>72,814</b>	<b>65,817</b>	<b>74,706</b>
<b>Change in net position</b>	<b>94,508</b>	<b>113,152</b>	<b>121,526</b>
<b>Net position - beginning of year</b>	<b>4,033,009</b>	<b>3,919,857</b>	<b>3,798,331</b>
<b>Net position - end of year</b>	<b>\$ 4,127,517</b>	<b>\$ 4,033,009</b>	<b>\$ 3,919,857</b>

## Budgetary Information

Under the California constitution, money may only be drawn from the treasury by a legal appropriation. The State Legislature authorized the CWSRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the CWSRF. This has the effect of allowing funds to be expended as soon as they are deposited into the CWSRF rather than waiting for appropriation authority. Since the funds in the CWSRF can only be used for limited purposes, the continuous appropriation authority allows for expeditious expenditure of funds and maximizes the benefits to local entities.

## Debt Administration

The State Water Board administers a leveraged CWSRF program. The State Water Board maintains high bond ratings from Fitch (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Ratings Services (AAA) on the CWSRF Series 2018, 2017, 2016 and 2012 Revenue Bonds. In 2018, the CWSRF issued Series 2018 Revenue Bonds for \$449 million at a premium of \$77.5 million. In 2017, the CWSRF issued Series 2017 Revenue Bonds for \$450 million at a premium of \$79.5 million. The Series 2018, 2017 and 2016 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects. In 2012, the CWSRF issued Series 2012 Refunding Revenue Bonds for \$68.9 million at a premium of \$6.0 million. The Series 2012 Revenue Bonds were issued to refund the Series 2002 Revenue Bonds.

As of June 30, 2018, outstanding bonds totaled \$1.514 billion, an increase of \$478.9 million, compared to \$1.035 billion last year as shown in Table 3. The increase in 2018 was due to the issuance of the Series 2018 Revenue Bonds. The increase in 2017 was due to the issuance of the Series 2017 Revenue Bonds. The revenue bonds are backed by a pledge of specific revenue for which the annual collections are generally predictable.

Additional information on the CWSRF long-term debt can be found in Note 5, Long-Term Debt.

**Table 3**

**Outstanding Long-term Debt  
(in thousands)**

	<b>June 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Revenue bonds</b>			
Bond principal	\$ 1,299,610	\$ 877,735	\$ 440,675
Bond premium	214,278	157,251	90,118
<b>Total revenue bonds</b>	<b>\$ 1,513,888</b>	<b>\$ 1,034,986</b>	<b>\$ 530,793</b>

## Economic Conditions and Outlook

In 2018, new binding loan commitments (encumbrances) were \$653 million, which is a 52.5% decrease when compared to new commitments made in 2017. The lower level of financing activity is consistent with the long-term average financing in the CWSRF, and reflects the general economic conditions in California along with recent CWSRF program improvements. A steady demand in CWSRF financing activity is anticipated in the near term.

Capitalization grant funds from EPA continue to be an important component of cash flows for financing activities. For the grant year 2018, the EPA allocated \$114 million to the CWSRF. The 2018 grant allocation is an increase of 20% compared to the 2017 grant allocation of \$94.6 million. Presently available information indicates that the 2019 grant will be approximately equal to the 2018 grant but could be lower as a result of ongoing congressional budget negotiations.

Additionally, the CWSRF continues to maintain a large loan portfolio that generates significant program revenues for financing activity and administrative expenses. CWSRF program staff and its financial advisors continuously monitor the demand for new loans in order to be prepared to quickly sell a revenue bond if needed to meet required cash flows.

Although improving economic conditions has reduced the number of local entities experiencing strained revenue flows, the CWSRF diligently works with loan recipients to ensure full repayment of all loans.

### **Requests for Information**

This financial report is designed to provide interested parties with a general overview of the CWSRF finances. Questions concerning the information provided in this report or requests for additional information should be addressed to Ms. Heather Bell, Manager, Accounting Branch, Division of Administrative Services, P.O. Box 100, Sacramento, California 95812 or [Heather.Bell@waterboards.ca.gov](mailto:Heather.Bell@waterboards.ca.gov).

## **BASIC FINANCIAL STATEMENTS**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**STATEMENTS OF NET POSITION**  
**June 30, 2018 and 2017**  
(In thousands)

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 579,327	\$ 596,396
Cash and cash equivalents - Restricted	637,898	443,576
Receivables:		
Loan interest	28,066	25,861
Investment interest	4,702	2,518
Due from other funds and other governments	37	146
Loans receivable:		
Current portion	104,119	128,271
Current portion - Restricted	155,541	100,385
Total current assets	1,509,690	1,297,153
<b>OTHER ASSETS</b>		
Loans receivable:		
Noncurrent (net of allowance for bad debt)	2,093,592	2,505,265
Noncurrent - Restricted	2,054,876	1,276,297
Total other assets	4,148,468	3,781,562
<b>TOTAL ASSETS</b>	5,658,158	5,078,715
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Revenue bond interest payable	16,466	10,603
Unearned Revenue	2	18
Due to other funds	37	99
Revenue bond cost of issuance payable	247	-
Revenue bonds payable	83,566	46,201
Total current liabilities	100,318	56,921
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds payable	1,430,322	988,785
Total noncurrent liabilities	1,430,322	988,785
Total liabilities	1,530,640	1,045,706
<b>NET POSITION</b>		
Restricted for:		
Debt service	211,650	157,601
Security for revenue bonds	2,210,416	1,376,682
Unrestricted	1,705,451	2,498,726
Total net position	\$ 4,127,517	\$ 4,033,009

The accompanying notes are an integral part of the financial statements.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended June 30, 2018 and 2017**  
(In thousands)

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUE</b>		
Loan interest income	\$ 64,185	\$ 59,615
Total operating revenue	<u>64,185</u>	<u>59,615</u>
<b>OPERATING EXPENSES</b>		
Capitalization Principal forgiveness	26,510	4,790
Other expenses	183	(860)
Total operating expenses	<u>26,693</u>	<u>3,930</u>
<b>INCOME FROM OPERATIONS</b>	<u>37,492</u>	<u>55,685</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Net investment income	12,950	6,020
Revenue bond interest expense	(26,587)	(12,458)
Revenue bond fees	(210)	(16)
Revenue bond issuance costs	(1,951)	(1,896)
Total nonoperating revenue (expense)	<u>(15,798)</u>	<u>(8,350)</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<u>21,694</u>	<u>47,335</u>
<b>CONTRIBUTIONS</b>		
EPA capitalization grant	46,261	60,966
EPA capitalization grant - Principal Forgiveness	26,510	4,790
State match revenue	43	61
Total contributions	<u>72,814</u>	<u>65,817</u>
<b>CHANGE IN NET POSITION</b>	94,508	113,152
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>4,033,009</u>	<u>3,919,857</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 4,127,517</u>	<u>\$ 4,033,009</u>

The accompanying notes are an integral part of the financial statements.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2018 and 2017**  
(In thousands)

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash paid to employees and vendors	\$ (246)	\$ (300)
Cash flows provided (required) by operating activities	(246)	(300)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Funds received from EPA capitalization grant	72,870	65,746
Funds received from the State of California	54	53
Proceeds from revenue bond issuance	527,000	529,467
Revenue bond issuance costs paid	(1,704)	(2,513)
Revenue bond fees paid	(210)	(16)
Principal paid on revenue bonds	(27,350)	(12,940)
Interest paid on revenue bonds	(41,472)	(18,517)
Cash flows provided (required) by noncapital financing activities	529,188	561,280
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received from interest on loans	50,179	46,018
Loans disbursed	(625,060)	(625,321)
Principal Forgiveness Disbursed	(26,510)	(4,790)
Principal received on loans receivable	238,938	327,013
Net investment income received	10,764	4,274
Net cash provided (required) by investing activities	(351,689)	(252,806)
<b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	177,253	308,174
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	1,039,972	731,798
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,217,225	\$ 1,039,972
<b>Reconciliation of operating income to net cash required by operating activities</b>		
Income from operations	\$ 37,492	\$ 55,685
Adjustments to reconcile income from operations to net cash required by operating activities		
Construction period interest	(11,786)	(11,237)
Cash received from interest on loans	(50,179)	(46,018)
Loans disbursed	625,060	625,274
Principal Forgiveness Disbursed	26,510	4,790
Principal received on loans receivable	(238,938)	(327,013)
Other expenses	-	(1,210)
Effect of changes in operating assets and liabilities:		
Loans receivable	(386,138)	(298,248)
Loan interest receivable	(2,205)	(2,373)
Due to other funds	(62)	50
Net cash provided (required) by operating activities	\$ (246)	\$ (300)

The accompanying notes are an integral part of the financial statements.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 1 - DEFINITION OF REPORTING ENTITY**

The California State Water Resources Control Board, Water Pollution Control Revolving Fund (Fund) was established pursuant to Title VI of the Federal Clean Water Act of 1987 (Act). The Act established the State Revolving Fund (CWSRF) program to replace the construction grants program (Title II of the Act) to provide loans at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the CWSRF provides for low interest loans and/or subsidies in the form of principal forgiveness loans to finance the entire cost of qualifying projects. The CWSRF provides a flexible financing source that can be used for a variety of pollution control projects, including non-point source pollution control projects, and developing estuary conservation and management plans. Loans made must be repaid within 30 years or less. All repayments, including interest and principal, must remain in the Fund.

Since 1989, the Fund has been capitalized by a series of grants from the U.S Environmental Protection Agency (EPA). States are required to provide matching funds equal to 20 percent of the Federal capitalization grant amount in order to receive the grants from the EPA. As of June 30, 2018 and 2017, the EPA has awarded cumulative capitalization grant funding of \$2,866,237, and \$2,771,615, respectively to the State of California (State), for which the State is required to provide \$573,247 and \$554,323, respectively, of cumulative matching funding to the Fund. In addition, in February 2009, the EPA awarded \$280,285 in ARRA grant funding for which there is no State Match requirement.

The Fund is administered by the California State Water Resources Control Board (Board), a part of the California Environmental Protection Agency, through the Division of Financial Assistance (Program). The Board's primary responsibilities with the CWSRF include obtaining capitalization grants from the EPA, soliciting potential applicants, negotiating loan agreements with local communities, reviewing and approving disbursement requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements. The Board consists of five member positions, which are appointed by the Governor and confirmed by the Senate.

The Board administers the CWSRF program by charging the Fund or the Administrative Fund for time spent on CWSRF activities by employees of the Board, and the Fund reimburses the State for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund based on direct salary costs. Employees charging time to the Fund are covered by the benefits available to State employees. The Fund is also charged indirect costs through the cost allocation plan for general State expenses.

**Reporting Entity**

The Fund follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
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**NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)**

The activities of the Fund are included in the State's Comprehensive Annual Financial Report as an enterprise fund using the accrual basis of accounting.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Fund conform to generally accepted accounting principles as applicable to a governmental unit accounted for as a proprietary enterprise fund. The enterprise fund is used since the Fund's powers are related to those operated in a manner similar to a for profit business where an increase in net position is an appropriate determination of accountability.

**Basis of Accounting**

The Fund's records are maintained on the accrual basis of accounting. Under the accrual basis of accounting revenue is recognized when earned and expenses are recognized when the liability is incurred. Assets and liabilities associated with the operations of the Fund are included in the Statements of Net Position

**Operating Revenues and Expenses**

The Fund distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from carrying out the purpose of the Fund of providing low interest loans to communities and providing assistance for prevention programs and administration. Operating revenues consist of loan interest repayments from borrowers. Operating expenses include principal forgiveness, direct salary costs and benefits expenses, allocated indirect costs and bad debt allowance. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

In accordance with generally accepted accounting principles, monies received from the EPA and the State are recorded as capital contributions. In certain circumstances, local communities have contributed the State's matching share in exchange for reduced interest rate loans, as discussed in Note 4.

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

**Budgets**

Under the California constitution, money may only be drawn from the Treasury by legal appropriation. The State Legislature authorized the CWSRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the CWSRF. Therefore, the Fund operations are not included in California's annual budget.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates in Preparing Financial Statements**

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

**Cash and Cash Equivalents**

Nearly all monies of the Fund are deposited with the California State Treasurer's office, which is responsible for maintaining these deposits in accordance with California State law. The Fund considers all such deposits to be cash equivalents. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. Investment earnings on these deposits are received quarterly. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

**Loans Receivable**

Loans are funded by capitalization grants from the EPA, State matching funds, local contributions, revenue bond proceeds, loan repayments and fund earnings. Loans are advanced to local agencies on a cost reimbursement basis. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period (Construction Period Interest). Loans are amortized over periods up to 30 years. Loan repayments must begin within one year of construction completion or one year from the initial loan disbursement, depending upon the type of loan agreement, and are made on an annual and semi-annual basis.

Loans funded by principal forgiveness are advanced to local agencies on a cost reimbursement basis and forgiven as each disbursement occurs. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

**Allowance for Bad Debts**

The allowance for bad debts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Loans receivable are charged against the allowance for bad debts when management believes that the uncollectibility of the principal is probable. The allowance for bad debts was \$9,356 at June 30, 2018 and June 30, 2017.

**Due to Other Funds**

Due to other funds represents amounts payable to other funds reported within the California State Water Resources Control Board that are not included in these financial statements.

**Revenue Bond Issue Costs and Original Issue Premium**

In accordance with GASB 65, revenue bond issue costs are expensed when incurred. Revenue bond original issue premium is being amortized over the term of the bonds using the effective interest method.

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**NOTE 3 - CASH AND CASH EQUIVALENTS**

The California State Treasurer’s Office administers a pooled investment program for the State. This program enables the State Treasurer’s Office to combine available cash from all funds and to invest cash that exceeds current needs. The necessary disclosures for the State’s pooled investment program are included in the Comprehensive Annual Financial Report of the State of California.

Nearly all monies of the Fund are deposited with the State Treasurer’s Office and are considered to be cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with California laws, and excess cash is invested in California’s Surplus Money Investment Fund, which is part of the Pooled Money Investment Account. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs, without prior notice or penalty.

The investments allowed by State statute, bond resolutions and investment policy resolutions restrict investments of the pooled investment program to investments in U.S. Government securities, negotiable certificates of deposit, bankers’ acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments. The Fund’s proportionate share of the investment income, based on the average daily balance for the period, is credited to the Fund quarterly. The Treasurer charges all funds of the State an administrative fee, which reduces the interest earned by each fund. All cash and investments are stated at fair value. Details of the investments can be obtained from the State Treasurer’s Office.

At June 30, 2018 and 2017, the Fund’s cash deposits had a carrying balance of \$6,062 and \$6, respectively.

Investments held by the State Treasurer are stated at fair value.

<u>Investments</u>	<u>2018</u>	<u>2017</u>
Treasury/Trust Portfolio	<u>\$ 1,211,163</u>	<u>\$ 1,039,966</u>
Total cash deposits and investments	<u>\$ 1,217,225</u>	<u>\$ 1,039,972</u>

The State Treasurer is responsible for investing funds of the Treasury/Trust Portfolio and managing the credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency credit risk of the Portfolio. Refer to the State’s Pooled Investments disclosure in the June 30, 2018 and 2017, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

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**NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)**

Cash deposits and investments are reflected on the June 30, 2018 and 2017 statements of net position as follows:

	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 579,327	\$ 596,396
Cash and cash equivalents - Restricted	637,898	443,576
Total cash deposits and investments	\$ 1,217,225	\$ 1,039,972

Cash and investments in the amount of \$426,247 and \$285,975, representing unspent revenue bonds proceeds, at June 30, 2018 and 2017, respectively, were restricted for future loan disbursements. Additionally, cash and investments in the amount of \$211,650 and \$157,601 representing various reserve accounts required by the revenue bonds, at June 30, 2018 and 2017, respectively, were restricted for future loan disbursements and debt service.

**NOTE 4 - LOANS RECEIVABLE**

Loans are made to qualified agencies for projects that meet the eligibility requirements of the Federal Clean Water Act of 1987 and any subsequent amendments. Loans are financed with capitalization grants, State match, local contributions, revenue bond proceeds and revolving loan funds. Interest rates vary between 0.0 percent and 4.0 percent and loans are repaid over 30 years or less starting one year after the project is completed. Interest rates are established in the original loan agreements and are generally 50 percent of the State's General Obligation Bond Rate at the time the loan agreement is prepared. Local match loans have an effective interest rate of 1.8 percent. Certain communities are offered special interest rates as low as 0.0 percent. Interest earned during the construction period is calculated from the date funds are disbursed until the project is completed.

As of June 30, 2018 and 2017, the Fund had total binding commitments of \$11,009,124 and \$10,355,713, respectively, since program inception. As of June 30, 2018, the remaining commitment on these loans amounted to \$2,708,317, of which \$112,594 is federal funds. The federal loan commitments included capitalization funds of \$50,706, which will be forgiven. As of June 30, 2017, the remaining commitment on these loans amounted to \$2,706,475, of which \$253,113 is federal funds. The federal loan commitments included capitalization funds of \$31,093, which will be forgiven. Principal forgiveness loans are forgiven as disbursed, but must be repaid if the recipient fails to meet the program requirements.

At June 30, 2018 and 2017, the unpaid balance on all loans receivable outstanding amounted to \$4,408,127 and \$4,010,218, respectively.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
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**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2019	\$ 53,712	\$ 259,659	\$ 313,371
2020	50,380	245,109	295,489
2021	46,905	244,709	291,614
2022	43,468	239,814	283,282
2023	40,025	237,315	277,340
2024-2028	153,777	974,745	1,128,522
2029-2033	89,232	684,409	773,641
2034-2038	40,462	380,519	420,981
2039-2043	18,749	168,896	187,645
2044-2048	6,042	133,914	139,956
Total	<u>\$ 542,752</u>	<u>3,569,089</u>	<u>\$ 4,111,841</u>
Loans not yet in repayment		848,394	
Allowance for bad debt		(9,356)	
Total loans receivable		<u>\$ 4,408,127</u>	

**Restricted Loans Receivable**

At June 30, 2018 and 2017, \$2,210,416 and \$1,376,682, respectively, of loans receivable were pledged as security for the revenue bonds outstanding (see Note 5). The principal and interest received during the fiscal year from these loans is to be used to make the annual debt service payments on the revenue bonds. During the year ended June 30, 2018, the Fund received \$117,510 and \$26,231 of principal and interest, respectively, on these loans. During the year ended June 30, 2017, the Fund received \$207,377 and \$26,944 of principal and interest, respectively, on these same loans. Any excess of the principal and interest received over the debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event certain requirements are met.

**Local Match Loans**

The Fund has offered reduced interest rates on loans to recipients that have agreed to contribute funds that can be used to match federal contributions. In order to obtain one of these loans, the local agency contributes one-sixth or 16.7 percent of the total loan principal. The borrower then repays 100 percent of the loan principal including the contributed amount (see Note 6).

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**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

The Fund had authorized a total of \$1,718,966 of local match loans as of June 30, 2018 and 2017. From these authorizations, certain borrowers elected to remit the State match at the time the loan was awarded in the amount of \$2,296 as of June 30, 2018 and 2017. The remaining borrowers elected to repay the State match over a period of 20 or 30 years, in the amount of \$281,714 as of June 30, 2018 and 2017. As of June 30, 2018 and 2017, total local match loans outstanding, including the local match to be paid, amounted to \$581,403 and \$652,685, respectively. As of June 30, 2018 and 2017, the remaining State match to be repaid amounted to \$56,672 and \$67,795, respectively.

**Loans to Major Local Agencies**

The Fund has made loans to the following major local agencies. The aggregate outstanding loan balances for each of these agencies exceeds 5 percent of total loans receivable. As of June 30, 2018 and 2017, respectively, the combined outstanding loan balances of these major local agencies represent approximately 22.17 and 19.31 percent of the total loans receivable.

<b><u>Borrower</u></b>	<b>2018</b>	
	<b><u>Authorized Loan Amount</u></b>	<b><u>Outstanding Loan Balance</u></b>
Los Angeles County Sanitation District (LACSD)	\$ 561,196	\$ 226,030
LACSD District #29	969	752
LACSD Santa Clarita	4,336	3,624
LACSD District #2	74,718	66,506
LACSD Total	<u>641,219</u>	<u>296,912</u>
Orange County Water District	333,860	222,293
Sacramento Regional County Sanitation District	1,400,079	458,152
	<u>\$ 2,375,158</u>	<u>\$ 977,357</u>
	<b>2017</b>	
<b><u>Borrower</u></b>	<b><u>Authorized Loan Amount</u></b>	<b><u>Outstanding Loan Balance</u></b>
Los Angeles County Sanitation District (LACSD)	\$ 596,746	\$ 246,481
LACSD District #29	969	796
LACSD Santa Clarita	4,336	3,820
LACSD District #2	41,511	38,219
LACSD Total	<u>643,562</u>	<u>289,316</u>
Orange County Water District	316,725	233,010
Sacramento Regional County Sanitation District	1,393,737	252,073
	<u>\$ 2,354,024</u>	<u>\$ 774,399</u>

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**NOTE 5 - LONG-TERM DEBT**

On March 8, 2018, the Fund issued \$449,225 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2018, dated February 1, 2018 with coupon rates of 5 percent at a yield of 2.57%. These serial bonds are due annually in varying amounts through 2048. The interest on the bonds is due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2028 are subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after April 1, 2028. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

On March 23, 2017, the Fund issued \$450,000 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2017, dated March 1, 2017 with coupon rates of 2 to 5 percent at a yield of 2.24%. These serial bonds are due annually in varying amounts through 2036. The interest on the bonds is due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2027 are subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after April 1, 2027. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

On April 28, 2016, the Fund issued \$410,735 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2016, dated April 1, 2016 with coupon rates of 2.5 to 5 percent at a yield of 1.57%. These serial bonds are due annually in varying amounts through 2035. The interest on the bonds is due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2026 are subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after April 1, 2026. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

On December 3, 2012, the Fund issued \$68,940 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Refunding Revenue Bonds, Series 2012, dated November 1, 2012, with coupon rates of 2 to 4 percent at a yield of .058%. These serial bonds are due annually in varying amounts through 2018. The interest on the bonds is due semi-annually on April 1 and October 1. The Series 2012 bonds shall not be subject to redemption prior to maturity. The bonds were issued to refund the Series 2002 Revenue Bonds.

At the time of issuance of the Series 2018 revenue bond, the Fund increased the pledged pool by \$671 million to \$2.293 billion of the Fund's outstanding loans as security for all outstanding bonds when compared to the Series 2016 pledged pool of \$1.622 billion (see Note 4). The principal and interest received during the fiscal year from these loans is to be used to make annual debt service payments on the revenue bonds. Any excess of the principal and interest received over the debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event that certain requirements are met.

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The Fund's long-term debt will mature as follows:

**Series 2012**

**Year Ending June 30,**

	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2019	\$ 7,470	\$ 131	\$ 7,601
	<u>\$ 7,470</u>	<u>\$ 131</u>	<u>\$ 7,601</u>

**Series 2016**

**Year Ending June 30,**

	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2019	\$ 21,010	\$ 18,166	\$ 39,176
2020	29,715	17,314	47,029
2021	30,885	16,072	46,957
2022	32,430	14,534	46,964
2023	34,205	12,940	47,145
2024-2028	129,240	43,213	172,453
2029-2033	83,610	17,456	101,066
2034-2036	31,820	2,295	34,115
	<u>\$ 392,915</u>	<u>\$ 141,990</u>	<u>\$ 534,905</u>

**Series 2017**

**Year Ending June 30,**

	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2019	\$ 30,365	\$ 21,117	\$ 51,482
2020	37,965	19,764	57,729
2021	24,565	18,412	42,977
2022	25,725	17,165	42,890
2023	27,195	15,849	43,044
2024-2028	163,655	53,423	217,078
2029-2033	97,450	21,455	118,905
2034-2037	43,080	4,340	47,420
	<u>\$ 450,000</u>	<u>\$ 171,525</u>	<u>\$ 621,525</u>

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**  
(Dollar Amounts Expressed in Thousands)

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

**Series 2018**

<b><u>Year Ending June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2019	\$ -	\$ 23,896	\$ 23,896
2020	9,490	22,224	31,714
2021	27,165	21,308	48,473
2022	29,220	19,898	49,118
2023	31,420	18,382	49,802
2024-2028	117,495	74,408	191,903
2029-2033	112,235	43,376	155,611
2034-2038	64,945	21,367	86,312
2039-2043	27,450	10,949	38,399
2044-2048	28,450	3,902	32,352
2049	1,355	33	1,388
	<b><u>\$ 449,225</u></b>	<b><u>\$ 259,743</u></b>	<b><u>\$ 708,968</u></b>

**Combined**

<b><u>Year Ending June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2019	\$ 58,845	\$ 63,310	\$ 122,155
2020	77,170	59,302	136,472
2021	82,615	55,792	138,407
2022	87,375	51,597	138,972
2023	92,820	47,171	139,991
2024-2028	410,390	171,044	581,434
2029-2033	293,295	82,287	375,582
2034-2038	139,845	28,002	167,847
2039-2043	27,450	10,949	38,399
2044-2048	28,450	3,902	32,352
2049	1,355	33	1,388
	<b><u>\$ 1,299,610</u></b>	<b><u>\$ 573,389</u></b>	<b><u>\$ 1,872,999</u></b>

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**  
(Dollar Amounts Expressed in Thousands)

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The detail of the Fund's long-term debt is as follows:

	<u>Balance June 30, 2017</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
<b>Series 2018 Revenue Bonds:</b>					
Bond principal	\$ -	\$ 449,225	\$ -	\$ 449,225	\$ -
Bond premium	-	77,775	1,896	75,879	6,940
	<u>-</u>	<u>\$ 527,000</u>	<u>\$ 1,896</u>	<u>525,104</u>	<u>\$ 6,940</u>
Less current portion:					
Bond principal				-	
Bond premium amortization	-			(6,940)	
Long-term portion	<u>\$ -</u>			<u>\$ 518,164</u>	
<b>Series 2017 Revenue Bonds:</b>					
Bond principal	\$ 450,000	\$ -	\$ -	\$ 450,000	\$ 30,365
Bond premium	77,140	-	9,010	68,130	8,538
	<u>527,140</u>	<u>\$ -</u>	<u>\$ 9,010</u>	<u>518,130</u>	<u>\$ 38,903</u>
Less current portion:					
Bond principal	-			(30,365)	
Bond premium amortization	(9,010)			(8,538)	
Long-term portion	<u>\$ 518,130</u>			<u>\$ 479,227</u>	
<b>Series 2016 Revenue Bonds:</b>					
Bond principal	\$ 410,735	\$ -	\$ 17,820	\$ 392,915	\$ 21,010
Bond premium	79,765	-	9,549	70,216	9,190
	<u>490,500</u>	<u>\$ -</u>	<u>\$ 27,369</u>	<u>463,131</u>	<u>\$ 30,200</u>
Less current portion:					
Bond principal	(17,820)			(21,010)	
Bond premium amortization	(9,549)			(9,190)	
Long-term portion	<u>\$ 463,131</u>			<u>\$ 432,931</u>	
<b>Series 2012 Revenue Bonds:</b>					
Bond principal	\$ 17,000	\$ -	\$ 9,530	\$ 7,470	\$ 7,470
Bond premium	346	-	292	54	54
	<u>17,346</u>	<u>\$ -</u>	<u>\$ 9,822</u>	<u>7,524</u>	<u>\$ 7,524</u>
Less current portion:					
Bond principal	(9,530)			(7,470)	
Bond premium amortization	(292)			(54)	
Long-term portion	<u>\$ 7,524</u>			<u>\$ -</u>	

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**  
(Dollar Amounts Expressed in Thousands)

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

	<u>Balance June 30, 2016</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
<b>Series 2017 Revenue Bonds:</b>					
Bond principal	\$ -	\$ 450,000	\$ -	\$ 450,000	\$ -
Bond premium	-	79,467	2,327	77,140	9,010
	<u>-</u>	<u>\$ 529,467</u>	<u>\$ 2,327</u>	<u>527,140</u>	<u>\$ 9,010</u>
Less current portion:					
Bond principal	-			-	
Bond premium amortization	-			(9,010)	
Long-term portion	<u>\$ -</u>			<u>\$ 518,130</u>	
<b>Series 2016 Revenue Bonds:</b>					
Bond principal	\$ 410,735	\$ -	\$ -	\$ 410,735	\$ 17,820
Bond premium	89,153	-	9,388	79,765	9,549
	<u>499,888</u>	<u>\$ -</u>	<u>\$ 9,388</u>	<u>490,500</u>	<u>\$ 27,369</u>
Less current portion:					
Bond principal	-			(17,820)	
Bond premium amortization	(9,388)			(9,549)	
Long-term portion	<u>\$ 490,500</u>			<u>\$ 463,131</u>	
<b>Series 2012 Revenue Bonds:</b>					
Bond principal	\$ 29,940	\$ -	\$ 12,940	\$ 17,000	\$ 9,530
Bond premium	965	-	619	346	292
	<u>30,905</u>	<u>\$ -</u>	<u>\$ 13,559</u>	<u>17,346</u>	<u>\$ 9,822</u>
Less current portion:					
Bond principal	(12,940)			(9,530)	
Bond premium amortization	(619)			(292)	
Long-term portion	<u>\$ 17,346</u>			<u>\$ 7,524</u>	

**NOTE 6 - CAPITAL CONTRIBUTIONS**

The Fund is capitalized by annual grants from the EPA. The State must also contribute an amount equal to 20 percent of the federal capitalization amount. The State's matching contribution has been provided through the appropriation of State resources as well as through the use of loans from the Water Reclamation program. As of June 30, 2018 and 2017, the EPA has awarded to the State cumulative capitalization grants of \$2,866,237 and \$2,771,615, respectively. As of June 30, 2018 and 2017, the State has drawn, cumulatively \$2,768,559 and \$2,695,788, respectively, for loans and administrative expenses. The State has provided matching funds of \$354,337 and \$354,293, respectively.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**  
(Dollar Amounts Expressed in Thousands)

**NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)**

In addition, as of June 30, 2018, the EPA awarded the ARRA grant of \$280,285 to the fund for which \$161,006 was for principal forgiveness (See Note 4). There were no State matching requirements for the grant, which was fully drawn as of June 30, 2014.

As discussed in Note 4, certain borrowers have contributed funds that can be used to match federal contributions in exchange for reduced interest rate loans. The EPA allows the State to include amounts provided by borrowers under certain local matching loans in meeting the State's statutory matching obligation. As of June 30, 2018 and 2017, the borrowers had contributed \$284,010, which qualifies as meeting the State's matching requirement.

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2018 and 2017, and balances available for future loans as of June 30, 2018. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2018 and 2017. As of June 30, 2018 and 2017, the state match required is \$553,711 and \$539,158, respectively. As of June 30, 2018 and 2017, the state match available for potential future state match is \$84,636 and \$99,145, respectively.

**TABLE 1**

Year	Grant Award	Funds Drawn		Funds Drawn		Available for Loans as of June 30, 2018	
		Funds Drawn As of June 30, 2016	During Year Ended June 30, 2017	Funds Drawn As of June 30, 2017	During Year Ended June 30, 2018		
1989-2014	\$ 2,576,562	\$ 2,576,562	\$ -	\$ 2,576,562	\$ -	\$ 2,576,562	\$ -
2015	99,763	53,471	46,292	99,763	-	99,763	-
2016	95,290	-	19,464	19,464	72,640	92,104	3,186
2017	94,622	-	-	-	130	130	94,492
	<u>\$ 2,866,237</u>	<u>\$ 2,630,033</u>	<u>\$ 65,756</u>	<u>\$ 2,695,789</u>	<u>\$ 72,770</u>	<u>\$ 2,768,559</u>	<u>\$ 97,678</u>
2008-ARRA	280,285	280,285	-	280,285	-	280,285	-
	<u>\$ 3,146,522</u>	<u>\$ 2,910,318</u>	<u>\$ 65,756</u>	<u>\$ 2,976,074</u>	<u>\$ 72,770</u>	<u>\$ 3,048,844</u>	<u>\$ 97,678</u>

**TABLE 2**

	State Match		State Match		State Match Paid As of June 30, 2018
	State Match Paid As of June 30, 2016	Paid During Year Ended June 30, 2017	State Match Paid As of June 30, 2017	Paid During Year Ended June 30, 2018	
State Disbursed	\$ 354,232	\$ 61	\$ 354,293	\$ 44	\$ 354,337
Local Disbursed	284,010	-	284,010	-	284,010
	<u>\$ 638,242</u>	<u>\$ 61</u>	<u>\$ 638,303</u>	<u>\$ 44</u>	<u>\$ 638,347</u>

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018 and 2017  
(Dollar Amounts Expressed in Thousands)**

**NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)**

**Restricted Funds**

State matching funds for the 1993 capitalization grant and portions of the 1994 and 1995 capitalization grants were provided by the transfer of \$34,316 of outstanding loans and loan interest earned from California Water Reclamation Loan Fund. In 2006, an additional \$3,545 of outstanding loans and loan interest was transferred to the Fund for future match requirements. Repayments of these loans are restricted for future water reclamation loans that are eligible under the CWSRF program.

**Administrative Fund**

In January 2008, legislation in the State of California became effective which allows CWSRF to collect a service charge on loans, which will be used for administrative costs. The fees collected and the expenses incurred are not included in the accompanying financial statements. Revenue collected and expenses incurred for the administrative fund are as follows:

	<b><u>June 30, 2018</u></b>	<b><u>June 30, 2017</u></b>
Administrative fee collected	\$ 6,458	\$ 5,851
Operating expenses incurred	\$ 8,929	\$ 9,205

**Small Community Grant Fund**

In September 2008, legislation in the State of California became effective which allows CWSRF to collect an annual charge on loans, which will be used to assist Small Disadvantage Communities. The fees collected and the expenses incurred are not included in the accompanying financial statements. Revenue collected and expenses incurred for the grant fund are as follows:

	<b><u>June 30, 2018</u></b>	<b><u>June 30, 2017</u></b>
Grant fee collected	\$ 9,136	\$ 10,039
Grants disbursed	\$ 3,404	\$ 3,602

**NOTE 7 - RISK MANAGEMENT**

The Fund participates in the State of California's Risk Management Program. The State has elected, with a few exceptions, to be self-insured against loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, settled claims have not exceeded insurance coverage in the last three fiscal years. Refer to the State's Risk Management disclosure in the June 30, 2018 and 2017, Comprehensive Annual Financial Reports.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**  
(Dollar Amounts Expressed in Thousands)

**NOTE 8 - NET POSITION**

Governmental Accounting Standards Board Statement provides for three components of net position: net investment in capital assets, restricted and unrestricted. As of June 30, 2018 and 2017, the Fund had no net position invested in capital assets.

Restricted net position includes net position that is restricted for use, either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. At June 30, 2018 and 2017, the Fund had restricted net position of \$211,650 and \$157,601, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2018 and 2017 pledged loans restricted for future bond debt service payments were \$2,210,416 and \$1,376,682, respectively, representing loans receivable pledged as security for the revenue bonds (see Note 5).

Unrestricted net position consists of net position that does not meet the definition of invested in capital assets or restricted. Although the Fund reports unrestricted net position on the face of the statements of net position, unrestricted net position is to be used by the Fund for the payment of obligations incurred by the Fund in carrying out its statutory powers and duties and is to remain in the Fund.

This information is an integral part of the accompanying financial statements.

## **SINGLE AUDIT REPORTS**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2018**

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Subrecipients</u>
<b><u>U.S. Environmental Protection Agency</u></b>			
Direct Programs:			
Capitalization Grants for State Revolving Funds	66.458	\$ 72,770,286 (*)	\$ 72,553,351
		<u>\$ 72,770,286</u>	<u>\$ 72,553,351</u>

(\*) Tested as a Major Program

See notes to Schedule of Expenditures of Federal Awards.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2018**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Fund) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Expenditures**

Expenditures reported on the Schedule are presented on the accrual basis of accounting and are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made, in the normal course of business, to amounts reported as expenditures in prior years. The Fund has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 3 - LOANS TO SUBRECIPIENTS**

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include \$72,553,351 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$26,509,448 of principal forgiveness loans.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
California State Water Resources Control Board  
Water Pollution Control Revolving Fund  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Water Pollution Control Revolving Fund's basic financial statements, and have issued our report thereon dated October 1, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Water Pollution Control Revolving Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Water Pollution Control Revolving Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
October 1, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
California State Water Resources Control Board  
Water Pollution Control Revolving Fund  
Sacramento, California

**Report on Compliance for Each Major Federal Program**

We have audited California State Water Resources Control Board, Water Pollution Control Revolving Fund's (Water Pollution Control Revolving Fund) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Water Pollution Control Revolving Fund's major federal programs for the year ended June 30, 2018. Water Pollution Control Revolving Fund's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Water Pollution Control Revolving Fund's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Water Pollution Control Revolving Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Water Pollution Control Revolving Fund's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Water Pollution Control Revolving Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

Management of Water Pollution Control Revolving Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Water Pollution Control Revolving Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
October 1, 2018

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018**

**PART I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major program:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified not considered to be material weaknesses?  yes  none reported

Type of auditor's report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.458	Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$2,183,109

Auditee qualified as low-risk auditee?  yes  no

**PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS**

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

**PART III - FINDINGS RELATED TO FEDERAL AWARDS**

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2018**

**PART IV - PRIOR YEAR FINDINGS**

There were no prior year audit findings required to be reported under *Government Auditing Standards* or 2 CFR 200.516(a).

**APPENDIX C**  
**AUDITED FINANCIAL STATEMENTS OF THE DRINKING WATER STATE**  
**REVOLVING FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2018 AND 2017**

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**CALIFORNIA STATE WATER RESOURCES  
CONTROL BOARD  
SAFE DRINKING WATER STATE REVOLVING FUND  
Sacramento, California**

**FINANCIAL STATEMENTS  
and SINGLE AUDIT REPORTS**

**June 30, 2018 and 2017**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
California State Water Resources Control Board  
Sacramento, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the California State Water Resources Control Board, Safe Drinking Water Revolving Fund (Safe Drinking Water Revolving Fund), a governmental fund of the State of California, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Safe Drinking Water Revolving Fund as of June 30, 2018 and 2017, and the respective changes in financial and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

As discussed in Note 1 – Definition of Reporting Entity, the basic financial statements of the Safe Drinking Water Revolving Fund are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the California State Water Resources Control Board that is attributable to the transactions of the Safe Drinking Water Revolving Fund. They do not purport to, and do not, present fairly the financial position of the California State Water Resources Control Board or the State of California as of June 30, 2018 and 2017, and the changes in their financial position and their cash flows, where applicable, for the years then ended, in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Required Supplementary Information***

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

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Safe Drinking Water Revolving Fund’s basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018, on our consideration of the Safe Drinking Water Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Safe Drinking Water Revolving Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Safe Drinking Water Revolving Fund's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
October 1, 2018

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER STATE REVOLVING FUND**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

The following Management's Discussion and Analysis is a required supplement to the California State Water Resources Control Board's (State Water Board), Safe Drinking Water State Revolving Fund (Drinking Water State Revolving Fund program) (DWSRF) financial statements. It describes and analyzes the financial position of the DWSRF providing an overview of the DWSRF's activities for the years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with information that is in the financial statements and notes, which follow this section.

**Financial Highlights**

- Net position increased by \$80.5 million to a total of \$1.8 billion in 2018, which was \$57.8 million less than the increase of \$138.3 million in 2017. The smaller increase in net position is primarily due to lower capital contributions available for loan disbursements from the U.S. Environmental Protection Agency (EPA) which is a direct result of reducing unliquidated obligations in prior years.
- Capital contributions decreased by \$65 million to \$104.2 million as compared to \$169.2 million in 2017. The decrease in capital contributions was mostly a result of lower capital available for loan disbursements from EPA capitalization grants. Capital contributions from EPA capitalization grant funds that were forgiven decreased by \$6 million to \$1 million as compared to \$7 million in 2017.
- Cash and cash equivalents decreased by \$108.4 million in 2018 as compared to a decrease of \$50 million in 2017. The decrease in 2018 was mostly the result of a decrease in capital contributions for loan disbursements.
- Loans receivable increased by \$189 million to \$1.6 billion in 2018 and increased by \$189 million in 2017. The increase in 2018 was primarily due to an increase in loan disbursements.

**Using this Annual Financial Report**

The financial statements included in this annual financial report are those of the DWSRF. As discussed in Note 1, Definition of Reporting Entity, the basic financial statements of the DWSRF are intended to present the financial position, changes in financial position, and cash flows of only that portion of the financial reporting entity of the State Water Board that is attributable to the transactions of the DWSRF. They do not purport to present the financial position of the State Water Board or the State of California (State) as of June 30, 2018 and 2017 and the change in their financial positions and their cash flows for the years then ended.

## Overview of Financial Statements

This discussion and analysis is an introduction to the DWSRF financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other supplementary information.

The financial statements of the DWSRF are presented as a special purpose government engaged only in business type activities - providing loans to other governmental entities. The statements provide both short-term and long-term information about the DWSRF's financial position, which assists the reader in assessing the DWSRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following three statements:

- The *Statements of Net Position* present information on all of the DWSRF's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of the DWSRF is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Position* present information which reflects how the DWSRF's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statements of Cash Flows* report the DWSRF's cash flows from operating activities, noncapital financing activities, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

## Net Position

In 2018, the DWSRF's net position continued to strengthen increasing by \$80.5 million, or 4.7%, to \$1.8 billion at June 30, 2018 as compared to an increase of \$138.3 million, or 8.7% the previous year. The increase in net position was \$57.8 million lower than in the previous year, mostly reflecting the lower capital contributions available for loan disbursements from EPA capitalization grants.

The current portion of the DWSRF's liabilities was \$9 million in 2018 and \$2 million in 2017. Current liabilities primarily correspond to administrative expenses, which include employee salary and benefits.

**Table 1****Net Position  
(in thousands)**

	<b>June 30,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 218,760	\$ 327,134	\$ 377,393
Loans receivable	1,585,511	1,396,908	1,208,063
All other assets	14,032	7,065	11,079
<b>Total assets</b>	<b>1,818,303</b>	<b>1,731,107</b>	<b>1,596,535</b>
<b>LIABILITIES</b>			
Current liabilities	8,919	2,232	5,933
<b>Total liabilities</b>	<b>8,919</b>	<b>2,232</b>	<b>5,933</b>
<b>NET POSITION</b>			
Unrestricted	1,809,384	1,728,875	1,590,602
<b>Total net position</b>	<b>\$ 1,809,384</b>	<b>\$ 1,728,875</b>	<b>\$ 1,590,602</b>

**Changes in Net Position**

Program revenue for the DWSRF in 2018 was \$20.3 million, which was an increase of \$2.5 million or 14% when compared to \$17.8 million in 2017. In 2018 and 2017, program revenue reflects an increase in outstanding receivables and the interest earned year over year on those receivables.

In 2018, general revenue was \$2.4 million, which was an increase of \$0.4 million or 18%, when compared to \$2 million in 2017. In 2017, general revenue increased \$0.8 million or 60.3% when compared to \$1.2 million in 2016. The increase in investment income during 2018 and 2017 mostly reflects the higher interest earnings from the Surplus Money Investment Fund (SMIF).

Total expenses decreased by \$4.4 million in 2018 as compared to a decrease of \$1.6 million in 2017. The decrease in 2018 was primarily due to a decrease in principal forgiveness expenses while the decrease in 2017 was primarily due to an decrease in administrative expenses.

Administrative expenses increased by \$4.8 million to \$23.6 million in 2018 compared to 2017. Administrative expenses decreased by \$4.1 million to \$18.8 million in 2017 compared to 2016. The increase of administrative expenses charged to the DWSRF during 2018 primarily reflects an increase in capital available from EPA capitalization grants for administrative activities. The decrease in 2017 primarily reflects lower capital available from EPA capitalization grants for administrative activities.

Capital contributions to the DWSRF decreased by \$65.9 million, or 43.4%, in 2018 when compared to 2017. The decrease in 2018 was due to a decrease in capital contributions available for loan disbursements from EPA capitalization grants. In 2017, capital contributions increased by \$5.6 million, or 4% when compared to 2016. The increase in 2017 was primarily due to an increase in contributions from Proposition 1 State Match funding.

In 2018, the DWSRF received principal forgiveness funds from EPA capitalization grants and Proposition 1 State Match funding of \$1.3 million and \$17 million, respectively. In 2017, the DWSRF received principal forgiveness funds from EPA capitalization grants and Proposition 1 State Match funding of \$6.8 and \$10.7 million, respectively. The loans made with these funds were forgiven as disbursed and must be repaid if certain loan conditions are not met.

**Table 2**

**Changes in Net Position**  
(in thousands)

	Year Ended June 30,		
	2018	2017	2016
<b>Revenues</b>			
Program revenues:			
Loan interest income	\$ 20,278	\$ 17,784	\$ 16,301
General revenues:			
Investment income	2,397	2,032	1,268
<b>Total revenues</b>	<b>22,675</b>	<b>19,816</b>	<b>17,569</b>
<b>Expenses</b>			
Program expenses:			
Administrative expenses	23,638	18,801	22,906
Principal Forgiveness expense	22,768	31,955	29,510
State match loan expenses	-	22	-
<b>Total expenses</b>	<b>46,406</b>	<b>50,778</b>	<b>52,416</b>
<b>Decrease in net position before contributions</b>	<b>(23,731)</b>	<b>(30,962)</b>	<b>(34,847)</b>
<b>Capital contributions:</b>			
EPA capitalization grant	82,017	138,178	146,219
EPA capitalization grant Principal Forgiveness	1,331	6,750	22,353
State and other contributions	3,887	13,610	-
State and other contributions Principal Forgiveness	17,005	10,697	1,552
Subtotal capital contributions	<b>104,240</b>	<b>169,235</b>	<b>170,124</b>
<b>Change in net position</b>	<b>80,509</b>	<b>138,273</b>	<b>135,277</b>
<b>Net position - beginning of year</b>	<b>1,728,875</b>	<b>1,590,602</b>	<b>1,455,325</b>
<b>Net position - end of year</b>	<b>\$ 1,809,384</b>	<b>\$ 1,728,875</b>	<b>\$ 1,590,602</b>

## **Budgetary Information**

Under the California constitution, money may only be drawn from the treasury by a legal appropriation. The State Legislature authorized the DWSRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the DWSRF. This has the effect of allowing funds to be expended as soon as they are deposited into the DWSRF rather than waiting for appropriation authority. Since the funds in the DWSRF can only be used for limited purposes, the continuous appropriation authority allows for expeditious expenditure of funds and maximizes the benefits to local entities.

## **Economic Conditions and Outlook**

In 2018 new binding loan commitments (encumbrances) were \$441 million, an increase of 71% above the new commitments made in 2017. The higher level of financing activity reflects an increase in the project size of eligible planning and construction projects that were ready-to-proceed with financing. A steady demand in DWSRF financing activity is anticipated in the near term.

Capitalization grant funds from EPA continue to be an important component of cash flows for financing activities. For the grant year 2018, the EPA allocated \$98 million to the DWSRF. The 2018 grant allocation is an increase of 26.4% compared to the 2017 grant allocation of \$77.5 million. Presently available information indicates that the 2019 grant will be approximately equal to the 2018 grant, but could be lower as a result of ongoing congressional budget negotiations.

Additionally, the DWSRF continues to maintain a large loan portfolio that generates additional program revenues for financing activity. DWSRF program staff and its financial advisors continuously monitor the demand for new loans in order to be prepared to quickly sell a revenue bond if needed to meet required cash flows or to ensure sufficient encumbrances and disbursement rates to maintain acceptable liquidation of federal funds.

Although favorable economic conditions, as well as the mitigation of the California drought, has reduced the number of local entities experiencing strained revenue flows, the DWSRF diligently works with loan recipients to ensure full repayment of all loans.

## **Requests for Information**

This financial report is designed to provide interested parties with a general overview of the DWSRF finances. Questions concerning the information provided in this report or requests for additional information should be addressed to Ms. Heather Bell, Manager, Accounting Branch, Division of Administrative Services, P.O. Box 100, Sacramento, California 95812 or [Heather.Bell@waterboards.ca.gov](mailto:Heather.Bell@waterboards.ca.gov).

## **BASIC FINANCIAL STATEMENTS**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**STATEMENTS OF NET POSITION**  
**June 30, 2018 and 2017**  
(in thousands)

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 218,760	\$ 327,134
Receivables:		
Loan interest	4,771	4,426
Investment interest	552	618
Due from other funds and other governments	8,709	2,021
Loans receivable:		
Current portion	51,310	49,530
Total current assets	284,102	383,729
<b>OTHER ASSETS</b>		
Loans receivable:		
Noncurrent	1,534,201	1,347,378
Total other assets	1,534,201	1,347,378
<b>TOTAL ASSETS</b>	1,818,303	1,731,107
 <b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Due to other funds	8,919	2,232
Total current liabilities	8,919	2,232
Total liabilities	8,919	2,232
 <b>NET POSITION</b>		
Unrestricted	1,809,384	1,728,875
Total net position	\$ 1,809,384	\$ 1,728,875

See accompanying Notes to Financial Statements.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended June 30, 2018 and 2017**  
(in thousands)

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUE</b>		
Loan interest income	\$ 20,278	\$ 17,784
Total operating revenue	<u>20,278</u>	<u>17,784</u>
<b>OPERATING EXPENSES</b>		
Principal Forgiveness	22,768	31,955
Personnel services	12,641	9,222
Other expenses	9,353	7,506
Grants and Subventions - setasides	1,644	2,073
Total operating expenses	<u>46,406</u>	<u>50,756</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>(26,128)</u>	<u>(32,972)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Net investment income	2,397	2,032
State match loan expense	-	(22)
Total nonoperating revenue (expense)	<u>2,397</u>	<u>2,010</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	<u>(23,731)</u>	<u>(30,962)</u>
<b>CONTRIBUTIONS</b>		
EPA capitalization grant	82,017	138,178
EPA capitalization grant - Principal Forgiveness	1,331	6,750
State match revenue	3,887	13,610
State match revenue - Principal Forgiveness	17,005	10,697
Total contributions	<u>104,240</u>	<u>169,235</u>
<b>CHANGE IN NET POSITION</b>	80,509	138,273
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>1,728,875</u>	<u>1,590,602</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 1,809,384</u>	<u>\$ 1,728,875</u>

See accompanying Notes to Financial Statements.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2018 and 2017**  
(in thousands)

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants disbursed	\$ (1,644)	\$ (2,073)
Cash paid to employees and vendors	<u>(15,307)</u>	<u>(20,430)</u>
Cash flows provided (required) by operating activities	<u>(16,951)</u>	<u>(22,503)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Funds received from EPA capitalization grant	76,661	148,631
Funds received from the State of California	20,891	24,307
State Match loan proceeds	-	36,000
Principal paid for State Match loan	-	(36,000)
State Match Fees paid	-	(2)
Interest paid on State Match Loan	-	(20)
Cash flows provided (required) by noncapital financing activities	<u>97,552</u>	<u>172,916</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received from interest on loans	19,933	18,294
Loans disbursed	(255,558)	(254,098)
Principal forgiveness disbursed	(22,768)	(31,955)
Principal received on loans receivable	66,956	65,252
Net investment income received	2,462	1,835
Net cash provided (required) by investing activities	<u>(188,975)</u>	<u>(200,672)</u>
<b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(108,374)	(50,259)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	327,134	377,393
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 218,760</u>	<u>\$ 327,134</u>
<b>Reconciliation of operating income to net cash provided (required) by operating activities</b>		
Loss from operations	\$ (26,128)	\$ (32,972)
Adjustments to reconcile income from operations to net cash required by operating activities		
Cash received from interest on loans	(19,933)	(18,294)
Loans disbursed	255,558	254,098
Principal forgiveness disbursed	22,768	31,955
Principal received on loans receivable	(66,956)	(65,252)
Effect of changes in operating assets and liabilities:		
Loans receivable	(188,603)	(188,846)
Loan interest receivable	(345)	510
Due to other funds	6,688	(3,702)
Net cash provided (required) by operating activities	<u>\$ (16,951)</u>	<u>\$ (22,503)</u>

See accompanying Notes to Financial Statements.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**  
(Dollar Amounts Expressed in Thousands)

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

The California State Water Resources Control Board, Safe Drinking Water State Revolving Fund (Fund) was established pursuant to the Federal Safe Drinking Water Act of 1974 (Act) as amended in 1996. The 1996 amendment to the Act established the Drinking Water State Revolving Fund (DWSRF) program for the purposes of providing low interest financing and/or subsidies, in the form of grants and loan principal forgiveness, to public water systems for drinking water infrastructure projects necessary to establish and/or maintain compliance with safe drinking water standards. Standard construction financing has repayment terms of up to 20-years, not to exceed the useful life of the facilities. Public water systems that serve “disadvantaged” communities can have repayment terms up to 30-years, not to exceed the useful life of the facilities. Standard planning financing has repayment terms of 5-years. Both planning and construction financing have a standard interest rate that is half of the State of California’s (State) general obligation bond rate from the prior calendar year. Public water systems that serve “disadvantaged” communities and have financial hardship may be eligible for 0 percent interest rate financing. All repayments, including interest and principal, must remain in the Fund.

Since 1997, the Fund has been capitalized by a series of grants from the U.S Environmental Protection Agency (EPA). States are required to provide matching funds equal to 20 percent of the Federal capitalization grant amount in order to receive the grants from the EPA. States may elect to use up to 31% of each grant for other eligible activities, such as DWSRF administration, other local assistance and special programs, small water system-technical assistance, and the State program management of its public water system supervision/capacity development programs. These other eligible activities under a DWSRF capitalization grant are accounted in separate funds, known as Set-asides. An additional 1:1 in matching funds must be provided by the State for the amount budgeted and expended under the State Program Management Set-aside. As of June 30, 2018 and 2017, the EPA has awarded cumulative capitalization grant funding of \$1,701,945 and \$1,624,400, respectively to the State of California (State), for which the State is required to provide \$340,389 and \$324,880, respectively, of cumulative match funding to the Fund. As of June 30, 2018 and 2017, the Fund has designated \$246,485 and \$222,036, respectively, of the cumulative capitalization grant for Set-aside funding, including \$90,540 and \$90,540, respectively, under the State Program Management Set-aside. As such, as of June 30, 2018 and 2017, the State is also required to provide \$90,540 and \$90,540, respectively, in cumulative 1:1 matching funds. In addition, in June 2009, the EPA awarded \$159,008 in ARRA grant funding, including \$8,152 of Set-aside funding, for which there is no State Match requirement.

Initially, the Fund was administered by the California Department of Health Services (CDHS) and then administered by the California Department of Public Health (CDPH) under the Division of Drinking Water after a restructure of CDHS by the State in July 2007. The Division of Drinking Water within CDPH managed both the DWSRF program and the State’s Public Water System Supervision program (PWSS) implanting the primacy authority in CDPH under USEPA to enforce the Safe Drinking Water Act.

As of July 1, 2014, the DWSRF program is administered by the California State Water Resources Control Board (Board), a part of the California Environmental Protection Agency, through the Division of Financial Assistance. The Division of Drinking Water, also under the Board, is focused primarily on the State’s PWSS program under the primacy authority now delegated to the Board by USEPA.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**  
(Dollar Amounts Expressed in Thousands)

**NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)**

The Board's primary responsibilities with the DWSRF include obtaining capitalization grants from the EPA, soliciting potential applicants, negotiating loan agreements with local communities, reviewing and approving disbursement requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements. The Board's primary responsibilities with the State's PWSS program include technical assistance and enforcement of the requirements of the Act as well as other governing State drinking water requirements. The Board consists of five member positions, which are appointed by the Governor and confirmed by the Senate.

The Board administers the DWSRF program by charging the Fund for time spent on DWSRF activities by employees of the Board, and the Fund reimburses the State for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund based on direct salary costs. Employees charging time to the Fund are covered by the benefits available to State employees. The Fund is also charged indirect costs through the cost allocation plan for general State expenses.

**Reporting Entity**

The Fund follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The activities of the Fund and the five Set-aside funds are included in the State's Comprehensive Annual Financial Report as a governmental fund using the accrual basis of accounting. The Set-aside funds are the: (1) Administration Account, (2) Water System Reliability Account, (3) Source Protection Account, (4) Small System Technical Assistance Account, and (5) Public Water System, Safe Drinking Water Revolving Fund. The Fund is engaged only in business-type activities and therefore is required to present financial statements as a proprietary enterprise fund.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Fund conform to generally accepted accounting principles as applicable to a governmental unit accounted for as a proprietary enterprise fund. The enterprise fund is used since the Fund's powers are related to those operated in a manner similar to a for profit business where an increase in net position is an appropriate determination of accountability.

**Basis of Accounting**

The Fund's records are maintained on the accrual basis of accounting. Under the accrual basis of accounting revenue is recognized when earned and expenses are recognized when the liability is incurred. Assets and liabilities associated with the operations of the Fund are included in the Statements of Net Position.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2018 and 2017**  
(Dollar Amounts Expressed in Thousands)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating Revenues and Expenses**

The Fund distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from carrying out the purpose of the Fund of providing low interest loans to communities and providing assistance for prevention programs and administration. Operating revenues consist of loan interest repayments from borrowers. Operating expenses include principal forgiveness, direct salary costs and benefits expenses, and allocated indirect costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

In accordance with generally accepted accounting principles, monies received from the EPA and the State are recorded as capital contributions.

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

**Budgets**

Under the California constitution, money may only be drawn from the Treasury by legal appropriation. The State Legislature authorized the DWSRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the DWSRF. Therefore, the Fund operations are not included in California's annual budget.

**Use of Estimates in Preparing Financial Statements**

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

**Cash and Cash Equivalents**

Nearly all monies of the Fund are deposited with the California State Treasurer's office, which is responsible for maintaining these deposits in accordance with California State law. The Fund considers all such deposits to be cash equivalents. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. Investment earnings on these deposits are received quarterly. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

**Loans Receivable**

Loans are funded by capitalization grants from the EPA, State matching funds, short term state matching loans, loan repayments and fund earnings. Loans are advanced to local agencies on a cost reimbursement basis. Interest is calculated from the date that funds are advanced.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Standard construction loans are amortized over periods up to 20 years, and not to exceed the useful life of the facilities, while construction loans for public water systems that serve “disadvantaged” communities are amortized over periods up to 30-years, also not to exceed the useful life of the facilities. Planning loans are amortized over periods up to 5-years. Interest only repayments begin within 6 months of the first disbursement with principal repayments beginning within 6 months after project completion date and are made on a semi-annual basis.

DWSRF loans funded by principal forgiveness are advanced to local agencies on a cost reimbursement basis and forgiven as each disbursement occurs. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

**Allowance for Bad Debts**

There is no allowance for uncollectible accounts, as all repayments are current and management believes all loans will be repaid according to the loan terms. There have been no loan defaults in the program since its inception.

**Due to Other Funds**

Due to other funds represents amounts payable to other funds reported within the California State Water Resources Control Board that are not included in these financial statements.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The California State Treasurer’s Office administers a pooled investment program for the State. This program enables the State Treasurer’s Office to combine available cash from all funds and to invest cash that exceeds current needs. The necessary disclosures for the State’s pooled investment program are included in the Comprehensive Annual Financial Report of the State of California.

Nearly all monies of the Fund are deposited with the State Treasurer’s Office and are considered to be cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with California laws, and excess cash is invested in California’s Surplus Money Investment Fund, which is part of the Pooled Money Investment Account. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs, without prior notice or penalty.

The investments allowed by State statute, bond resolutions and investment policy resolutions restrict investments of the pooled investment program to investments in U.S. Government securities, negotiable certificates of deposit, bankers’ acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments. The Fund’s proportionate share of the investment income, based on the average daily balance for the period, is credited to the Fund quarterly. The Treasurer charges all funds of the State an administrative fee, which reduces the interest earned by each fund. All cash and investments are stated at fair value. Details of the investments can be obtained from the State Treasurer’s Office.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
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**NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)**

At June 30, 2018 and 2017, the Fund's cash deposits had a carrying balance of \$96,246 and \$72,995, respectively.

Investments held by the State Treasurer are stated at fair value.

<u>Investments</u>	<u>2018</u>	<u>2017</u>
Treasury/Trust Portfolio	<u>\$ 122,514</u>	<u>\$ 254,139</u>
Total cash deposits and investments	<u>\$ 218,760</u>	<u>\$ 327,134</u>

The State Treasurer is responsible for investing funds of the Treasury/Trust Portfolio and managing the credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency credit risk of the Portfolio. Refer to the State's Pooled Investments disclosure in the June 30, 2018 and 2017, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

Cash deposits and cash equivalents are reflected on the June 30, 2018 and 2017 statements of net position as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	<u>\$ 218,760</u>	<u>\$ 327,134</u>
Total cash deposits and cash equivalents	<u>\$ 218,760</u>	<u>\$ 327,134</u>

**NOTE 4 - LOANS RECEIVABLE**

Loans are made to qualified agencies for projects that meet the eligibility requirements of the Federal Safe Drinking Water Act of 1974 and any subsequent amendments. Loans are financed with capitalization grants, State match, short term state matching loans, and revolving loan funds. Interest rates vary between 0.0 percent and 4.0 percent and loans are repaid over 30 years or less starting with interest only repayments within 6 months of the first disbursement and principal repayments beginning within 6 months after project completion date. Interest rates are established in the original loan agreements and are generally 50 percent of the State's General Obligation Bond Rate at the time the loan agreement is prepared. Certain communities are offered special interest rates as low as 0.0 percent. Interest earned during the construction period is calculated from the date funds are disbursed until the project is completed.

As of June 30, 2018 and 2017, the Fund had total binding commitments of \$3,245,863 and \$2,804,380, respectively, since program inception. As of June 30, 2018, the remaining commitment on these loans amounted to \$879,290, of which \$337,576 is federal funds. The federal loan commitments included capitalization funds of \$24,428 which will be forgiven.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
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**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

As of June 30, 2017, the remaining commitment on these loans amounted to \$716,134, of which \$647,617 is federal funds. The federal loan commitments included capitalization funds of \$34,198 which will be forgiven. Principal forgiveness loans are forgiven as disbursed, but must be repaid if the recipient fails to meet the program requirements.

At June 30, 2018 and 2017 the unpaid balance on all loans receivable outstanding amounted to \$1,585,511 and \$1,396,908, respectively.

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2019	\$ 16,362	\$ 51,310	\$ 67,672
2020	21,001	78,075	99,076
2021	19,858	80,843	100,701
2022	18,661	81,498	100,159
2023	17,442	81,504	98,946
2024-2028	68,693	404,509	473,202
2029-2033	40,390	328,472	368,862
2034-2038	22,020	226,504	248,524
2039-2043	11,040	134,467	145,507
2044-2048	4,224	107,693	111,917
2049-2053	120	10,636	10,756
Total	<u>\$ 239,811</u>	<u>1,585,511</u>	<u>\$ 1,825,322</u>
Loans not yet in repayment		-	
Total loans receivable		<u>\$ 1,585,511</u>	

**Loans to Major Local Agencies**

The Fund has made loans to the following major local agencies. The aggregate outstanding loan balances for each of these agencies exceeds 5 percent of total loans receivable. The combined outstanding loan balances at June 30, 2018 and 2017 of these major local agencies represent approximately 67.2 and 63.4 percent of the total loans receivable.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
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**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

	<b>2018</b>	
	<b>Authorized Loan Amount</b>	<b>Outstanding Loan Balance</b>
<b><u>Borrower</u></b>		
Los Angeles, City of (acting by and through the Department of Water & Power)	\$ 825,451	\$ 558,413
Fresno, City of	418,382	308,898
Santa Barbara, City of	124,515	95,665
Woodland-Davis Clean Water Agency	111,359	103,294
	<u>\$ 1,479,707</u>	<u>\$ 1,066,270</u>

	<b>2017</b>	
	<b>Authorized Loan Amount</b>	<b>Outstanding Loan Balance</b>
<b><u>Borrower</u></b>		
Los Angeles, City of (acting by and through the Department of Water & Power)	\$ 901,197	\$ 543,438
Fresno, City of	418,382	161,641
Woodland-Davis Clean Water Agency	111,358	101,646
Santa Barbara, City of	99,515	79,524
	<u>\$ 1,530,452</u>	<u>\$ 886,249</u>

**NOTE 5 - CAPITAL CONTRIBUTIONS**

The Fund is capitalized by annual grants from the EPA. The State must also contribute an amount equal to 20 percent of the federal capitalization amount. The State's matching contribution has been provided through the appropriation of State resources. As of June 30, 2018 and 2017 the EPA has awarded to the State cumulative capitalization grants, including in-kind of, \$1,701,945 and \$1,624,400, respectively. As of June 30, 2018 and 2017, the State has drawn, cumulatively \$1,690,412 and \$1,607,064, respectively, for loans, and administrative expenses. The State has provided matching funds of \$377,201 and \$356,310, respectively.

In addition, as of June 30, 2018, the EPA has awarded the ARRA grant of \$159,008 to the fund for which there is no State matching requirements. As of June 30, 2018 \$159,008 has been drawn, cumulatively, for loans and administrative expenses, of which \$121,290 was for principal forgiveness (See Note 4). There were no State matching requirements for the grant which was fully drawn as of June 30, 2015.

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2018 and 2017, and balances available for future loans as of June 30, 2018. Table 2 summarizes the state match amounts paid by the state as of June 30, 2018 and 2017. As of June 30, 2018 and 2017, the state match required is \$338,082 and \$321,413, respectively. As of June 30, 2018 and 2017, the state match available for potential future state match is 39,119 and \$34,897, respectively.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
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**NOTE 5 - CAPITAL CONTRIBUTIONS (CONTINUED)**

Year	Grant Award	Funds Drawn		Funds Drawn		Available for Loans and Setasides as of June 30, 2018	
		As of June 30, 2016	During Year Ended June 30, 2017	As of June 30, 2017	During Year Ended June 30, 2018		
1997-2012	\$ 1,301,478	\$ 1,301,478	\$ -	\$ 1,301,478	\$ -	\$ 1,301,478	\$ -
2013	77,916	74,082	3,834	77,916	-	77,916	-
2014	82,921	74,801	8,120	82,921	-	82,921	-
2015	82,279	10,109	65,316	75,425	5,805	81,230	1,049
2016	78,140	-	67,658	67,658	10,184	77,842	298
2017	77,545	-	-	-	67,359	67,359	10,186
	<u>\$ 1,700,279</u>	<u>\$ 1,460,470</u>	<u>\$ 144,928</u>	<u>\$ 1,605,398</u>	<u>\$ 83,348</u>	<u>\$ 1,688,746</u>	<u>\$ 11,533</u>
In-kind (Direct Payment)							
Made by EPA	1,666	1,591	75	1,666	-	1,666	-
	<u>\$ 1,701,945</u>	<u>\$ 1,462,061</u>	<u>\$ 145,003</u>	<u>\$ 1,607,064</u>	<u>\$ 83,348</u>	<u>\$ 1,690,412</u>	<u>\$ 11,533</u>
2008-ARRA	159,008	159,008	-	159,008	-	159,008	-
	<u>\$ 1,860,953</u>	<u>\$ 1,621,069</u>	<u>\$ 145,003</u>	<u>\$ 1,766,072</u>	<u>\$ 83,348</u>	<u>\$ 1,849,420</u>	<u>\$ 11,533</u>

**TABLE 2**

	State Match Paid		State Match Paid		State Match Paid As of June 30, 2018
	State Match Paid As of June 30, 2016	During Year Ended June 30, 2017	State Match Paid As of June 30, 2017	During Year Ended June 30, 2018	
State Disbursed	\$ 243,053	\$ 24,307	\$ 267,360	\$ 20,891	\$ 288,251
State Interest Disbursed	52,950	36,000	88,950	-	88,950
	<u>\$ 296,003</u>	<u>\$ 60,307</u>	<u>\$ 356,310</u>	<u>\$ 20,891</u>	<u>\$ 377,201</u>

On October 6, 2016, the Fund borrowed \$36,000 with interest at .234 percent for the purpose of providing the state match. The loan was repaid on October 12, 2016.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
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(Dollar Amounts Expressed in Thousands)

**NOTE 6 - RISK MANAGEMENT**

The Fund participates in the State of California's Risk Management Program. The State has elected, with a few exceptions, to be self-insured against loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, settled claims have not exceeded insurance coverage in the last three fiscal years. Refer to the State's Risk Management disclosure in the June 30, 2018 and 2017, Comprehensive Annual Financial Reports.

**NOTE 7 - NET POSITION**

Governmental Accounting Standards Board Statement provides for three components of net position: net investment in capital assets, restricted and unrestricted. As of June 30, 2018 and 2017 the Fund had no net position invested in capital assets.

Restricted net position includes net position that is restricted for use, either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. At June 30, 2018 and 2017 the Fund had restricted net position of \$0.

Unrestricted net position consists of net position that does not meet the definition of invested in capital assets or restricted. Although the Fund reports unrestricted net position on the face of the statements of net position, unrestricted net position is to be used by the Fund for the payment of obligations incurred by the Fund in carrying out its statutory powers and duties and is to remain in the Fund.

## **SINGLE AUDIT REPORTS**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER STATE REVOLVING FUND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2018**

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Subrecipients</u>
<b><u>U.S. Environmental Protection Agency</u></b>			
Direct Programs:			
Capitalization Grants for State Revolving Funds	66.468	\$ 83,348,546 (*)	\$ 61,353,771
		<u>\$ 83,348,546</u>	<u>\$ 61,353,771</u>

(\*) Tested as a Major Program

See notes to Schedule of Expenditures of Federal Awards.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER STATE REVOLVING FUND  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2017**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the California State Water Resources Control Board, Safe Drinking Water State Revolving Fund under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Safe Drinking Water State Revolving Fund of the California State Water Resources Control Board has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Code.

**NOTE 3 - DISBURSEMENTS TO SUBRECIPIENTS**

Capitalization Grants for Safe Drinking Water State Revolving Fund CFDA# 66.468 include \$59,709,650 of expenditures that were disbursed as loan awards, which includes \$1,331,386 of principal forgiveness loans and \$1,644,121 of expenditures that were disbursed as grant awards to qualifying subrecipients.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

California State Water Resources Control Board  
Safe Drinking Water Revolving Fund  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California State Water Resources Control Board, Safe Drinking Water Revolving Fund (Safe Drinking Water Revolving Fund), a governmental fund of the State of California, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Safe Drinking Water Revolving Fund's basic financial statements, and have issued our report thereon dated October 1, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Safe Drinking Water Revolving Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Safe Drinking Water Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Safe Drinking Water Revolving Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Safe Drinking Water Revolving Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
October 1, 2018



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

California State Water Resources Control Board  
Safe Drinking Water Revolving Fund  
Sacramento, California

**Report on Compliance for Each Major Federal Program**

We have audited California State Water Resources Control Board, Safe Drinking Water Revolving Fund's (Safe Drinking Water Revolving Fund) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Safe Drinking Water Revolving Fund's major federal programs for the year ended June 30, 2018. Safe Drinking Water Revolving Fund's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Safe Drinking Water Revolving Fund's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Safe Drinking Water Revolving Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Safe Drinking Water Revolving Fund's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Safe Drinking Water Revolving Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control Over Compliance**

Management of Safe Drinking Water Revolving Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Safe Drinking Water Revolving Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Safe Drinking Water Revolving Fund's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
October 1, 2018

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER REVOLVING FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018**

**PART I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?                     yes      no

Significant deficiency(ies) identified  
not considered to be material weaknesses?                     yes      none reported

Noncompliance material to financial statements  
noted?                     yes      no

**Federal Awards**

Internal control over major program:

Material weakness(es) identified?                     yes      no

Significant deficiency(ies) identified  
not considered to be material weaknesses?                     yes      none reported

Type of auditor's report issued on compliance  
for major program: Unmodified

Any audit findings disclosed that are required  
to be reported in accordance with  
2 CFR 200.516(a)?                     yes      no

Identification of major program:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
66.458	Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between  
Type A and Type B programs:                    \$3,000,000

Auditee qualified as low-risk auditee?                     yes      no

**PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS**

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

**PART III - FINDINGS RELATED TO FEDERAL AWARDS**

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER REVOLVING FUND  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2018**

**PART IV - PRIOR YEAR FINDINGS**

There were no findings in the prior year that are required to be reported.

## APPENDIX D

### SUMMARY OF THE MASTER TRUST INDENTURE AND THE MASTER PAYMENT AND PLEDGE AGREEMENT

*Following is a summary of certain provisions of the Master Trust Indenture and the Master Payment and Pledge Agreement. The summary makes use of terms defined in the Master Trust Indenture and the Master Payment and Pledge Agreement, certain of which definitions are summarized below. The summary does not purport to be comprehensive and is subject to all of the terms and provisions of the Master Trust Indenture and the Master Payment and Pledge Agreement, to which reference is hereby made and copies of which are available from IBank or the Trustee.*

#### DEFINITIONS

The following are definitions in summary form of certain terms contained in the Master Trust Indenture and the Master Payment and Pledge Agreement and used in this Official Statement:

Account means any account or subaccount required to be established under the Master Trust Indenture or permitted to be established in a Series Indenture in accordance with the provisions of the Master Trust Indenture.

Act means the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division 1 of Title 6.7 of the California Government Code (commencing at Section 63000 thereof), as amended.

Additional Bonds Test means, as of any date of calculation, (A) Pledged Revenues are not less than 105% of Debt Service for each year ending on October 1 in which the Bonds are scheduled to be Outstanding, and (B) the Debt Service Reserve Fund Requirement is satisfied.

Additional Payments means all payments made by a Recipient under a Pledged Project Obligation except Pledged Revenues and Prepayments thereof.

Administrative Costs means CWSRF Administrative Costs or DWSRF Administrative Costs, as applicable.

Amount Payable means the portion of principal of or interest on a Series due on the next succeeding Bond Payment Date when either interest or principal and interest is due pursuant to the provisions of the Master Trust Indenture described under the caption “Master Trust Indenture – Payment Requirements” for payment on a Board Payment Date.

Authorized IBank Officer means, the Chair, the designee of the Chair, the Executive Director, the Chief Deputy Executive Director or any other officer of IBank designated to act as an Authorized IBank Officer under the Master Trust Indenture.

Authorized Board Officer means the Deputy Director, Division of Financial Assistance of the Board or his or her designee or any other officer of the Board designated to act as an Authorized Board Officer under the Master Trust Indenture.

Authorized Recipient Representative means a person or persons authorized by resolution of a Recipient to act on behalf of such Recipient.

Beneficial Owner means with respect to any book-entry bond, the beneficial Owner of such Bond as determined in accordance with the applicable rules of the Securities Depository for the Bonds.

Board means the State Water Resources Control Board, a State agency existing under the laws of the State.

Board Officer Certificate means a certificate signed by an Authorized Board Officer.

Board Payment Date means March 15, June 15, September 15 and December 15 of each year or, if such date is not a Business Day, the next succeeding Business Day, or such other date as may be set forth in the Related Series Indenture.

Board Reserved Rights means rights of the Board to Additional Payments, notices, opinions and indemnification under a Pledged Project Obligation.

Bond or Bonds means either any or all, as the context may require, bond or bonds or note or notes of all Series of Bonds executed, authenticated and delivered under the Master Trust Indenture to finance Eligible Projects.

Bond Counsel means Hawkins Delafield & Wood LLP or other counsel selected by IBank that is nationally recognized as experts in matters relating to bonds issued by states and their political subdivisions and in matters pertaining to the tax-exempt nature of interest on obligations issued by states and their political subdivisions.

Bond Expenses means any and all such amounts as are necessary to pay or reimburse a Party for certain fees and costs or expenses directly related to one or more Series, provided that Bond Expenses shall not include Administrative Costs.

Bond Payment Date means each date the principal of, redemption price of or interest on any Series is due, whether by regular scheduled payment or earlier redemption.

Bond Proceeds Fund means each Bond Proceeds Fund established pursuant to the Master Trust Indenture and the Related Series Indenture.

Bond Register means the bond register specified in the Master Trust Indenture.

Bond Year means the period of twelve consecutive months ending on October 1 in any year in which the Bonds are Outstanding, except that with respect to each Series of Bonds the first Bond Year shall commence on the date of issuance and delivery of such Series of Bonds and end on the following October 1.

Business Day means any day other than (a) a Saturday or Sunday, (b) a day on which the Board, IBank or State offices are required by law to close, (c) a day on which banks located in the city of the principal office of the Trustee is located are required by law to close or (d) the New York Stock Exchange is closed.

Capitalization Grant means an amount provided to the Board under one or more agreements between the Board and the United States of America acting by and through the United States Environmental Protection Agency to be applied in accordance with the Clean Water Act or the Safe Drinking Water Act.

Clean Water Act means Title VI of the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1987 (33 U.S.C. §1251 et seq.) and the rules and regulations promulgated thereunder.

Costs of Issuance means any and all items of expense payable or reimbursable directly or indirectly by IBank and related to the authorization, sale and issuance of Bonds, which items of expense shall include but not be limited to printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, the costs of any Credit Provider, legal fees and costs, professional consultants' fees, fees of the Board, fees of verification agents, costs of credit ratings, fees and costs for execution, transportation and safekeeping of Bonds, underwriter discount or placement fees, costs and expenses of refunding any Bonds being refunded, and other costs, charges and fees in connection with the original issuance of Bonds and any costs incurred by the Board in connection with the administration of the CWSRF or DWSRF to be paid with the proceeds of a Series.

Costs of Issuance Fund means each Costs of Issuance Fund established pursuant to the Master Trust Indenture and the Related Series Indenture.

Coverage Test means, as of any date of calculation, (A) Pledged Assets are not less than 105% of Debt Service for each Bond Year in which the Bonds are scheduled to be Outstanding, and (B) the Debt Service Reserve Fund Requirement is satisfied.

Credit Facility means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a Credit Provider which provides for payment for all or a portion of the principal, redemption price or purchase price of and interest on any Series.

Credit Provider means the bank, insurance company or other financial institution which provides a Credit Facility.

CWSRF means the water pollution control revolving fund established by the State pursuant to the CWSRF Act, which fund is to be used for purposes of the Clean Water Act.

CWSRF Act means Chapter 6.5 of Division 7 (commencing with Section 13475) of the California Water Code, as amended.

CWSRF Administrative Costs means costs of the Board incurred in the general administration of the CWSRF, including overhead costs of the Board allocable to the CWSRF.

CWSRF Bond Funded Project Obligation means a CWSRF Project Obligation financed in whole or in part from the proceeds of any Series of Bonds.

CWSRF Eligible Project means a project eligible for financing pursuant to the Clean Water Act and the CWSRF Act.

CWSRF Pledged Project Obligation means a CWSRF Project Obligation which is assigned and pledged as security for the benefit of the Bonds.

CWSRF Pledged Project Obligations means the Project Obligations set forth in the Master Payment and Pledge Agreement as may be amended from time to time in accordance with the provisions described under the caption "Master Trust Indenture – Release of Pledged Project Obligations from the Lien of the Master Trust Indenture; Pledge of Additional Pledged Project Obligations".

CWSRF Prepayment means any payment of principal on a CWSRF Pledged Project Obligation in advance of its stated due date as designated by a Recipient on a CWSRF Pledged Project Obligation.

CWSRF Project Obligation means any loan contract, installment sale agreement and any and all other agreements, resolutions and other related documents entered into by a Recipient evidencing amounts owed to the Board in connection with the financing of a CWSRF Eligible Project.

Debt Service means, as of any date, with respect to the Bonds then Outstanding, and, in the case of the Additional Bonds Test and the Coverage Test, to be Outstanding, the aggregate amount of principal and interest scheduled to become due (either at maturity or by mandatory redemption), as calculated by the Board in accordance with this definition. For purposes of calculating Debt Service, the following assumptions are to be used to calculate the principal and interest becoming due in any Bond Year:

- (i) in determining the principal amount due in each Bond Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such principal, including any minimum sinking fund account payments;
- (ii) if 20% or more of the principal of a Series is not due until the final stated maturity of such Bonds, principal and interest on such Series may, at the option of the Board and IBank, be treated as if such principal and interest were due based upon an amortization of such principal and interest as provided in the respective Series Indenture;
- (iii) if a Series is supported by a Credit Facility in the form of a line of credit or a letter of credit, principal may, at the option of the Board and IBank, be treated as if it were due based upon an amortization of such principal as provided in the respective Series Indenture;
- (iv) if a Series is variable interest rate Bonds and is not subject to a Swap Agreement, the interest rate on such variable interest rate Bonds shall be assumed to be (i) if such variable interest rate Bonds have been or are to be issued as obligations exempt from federal income taxation, the monthly average Municipal Index during the 3 years (i.e. most recent 36 complete months) preceding the date of such calculation, or (ii) if such variable interest rate Bonds have been or are to be issued as obligations subject to federal income taxation, the monthly average LIBOR, or if LIBOR is not reported, the interest rate then reported by any financial industry recognized successor to LIBOR during the 3 years (36 complete months) preceding the date of such calculation based on an equivalent term to LIBOR as determined by the Board;
- (v) if a Series is variable interest rate Bonds and is subject to a Swap Agreement, the interest on such variable interest rate Bonds shall be assumed to be the fixed swap rate or cap "strike rate," as appropriate, if IBank's variable rate liability on all or a portion of any variable interest rate Bonds has been swapped to a fixed rate liability or capped pursuant to an interest rate cap agreement or similar agreement, and if a Series are fixed rate Bonds with respect to which all or a

portion of any Bonds has been swapped to a variable rate liability, interest on such Bonds shall be assumed to be as provided in (iv) above; and

- (vi) principal and interest payments on Bonds shall be excluded to the extent such payments are to be paid from amounts then currently on deposit with the Trustee or other fiduciary in escrow specifically therefor and restricted to Defeasance Obligations and interest payments shall be excluded to the extent that such interest payments are to be paid from the proceeds of Bonds held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest by the Trustee or other fiduciary.

Debt Service Fund means each Debt Service Fund established pursuant to the Master Trust Indenture.

Debt Service Reserve Fund means each Debt Service Reserve Fund established pursuant to the Master Trust Indenture and the Related Series Indenture.

Debt Service Reserve Fund Deficiency as of any date means the amount, if any, by which a Debt Service Reserve Fund Requirement is greater than the amount held in a Debt Service Reserve Fund.

Debt Service Reserve Fund Requirement means a Debt Service Reserve Fund Requirement established pursuant to a Series Indenture.

Defeasance Obligations means (i) non-callable obligations of, or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States, including, but not limited to, all direct or fully guaranteed U.S. Treasury obligations, Farmers Home Administration Certificates of beneficial ownership, General Services Administration Participation certificates, U.S. Maritime Administration Guaranteed Title XI financing, Small Business Administration - Guaranteed participation certificates and Guaranteed pool certificates, Government National Mortgage Association (“GNMA”) - GNMA guaranteed mortgage-backed securities and GNMA guaranteed participation certificates, U.S. Department of Housing and Urban Development Local authority bonds, Washington Metropolitan Area Transit Authority Guaranteed transit bonds, and State and Local Government Series; (ii) non-callable obligations of government-sponsored agencies that are not backed by the full faith and credit of the U.S. Government, including, but not limited to, Federal Home Loan Mortgage Corp. (“FHLMC”) Debt Obligations, Farm Credit System (formerly Federal Land Banks, Intermediate Credit Banks, and Banks for Cooperatives) Consolidated Systemwide bonds and notes, Federal Home Loan Banks (“FHL Banks”) Consolidated debt obligations, Federal National Mortgage Association (“FNMA”) Debt Obligations, and Resolution Funding Corp. (“REFCORP”) Debt obligations; (iii) certain stripped securities where the principal-only and interest-only strips are derived from non-callable obligations issued by the U.S. Treasury and REFCORP securities stripped by the Federal Reserve Bank of New York, excluding custodial receipts, i.e., CATs, TIGERS, unit investment trusts and mutual funds; and (iv) tax exempt obligations of a state or political subdivision thereof which have been defeased under irrevocable escrow instructions by the deposit of cash or U.S. Treasury obligations and which are then rated in the highest rating category by each Rating Agency.

DTC means The Depository Trust Company and its successors and assigns.

DTC Participants means those broker-dealers, banks and other financial institutions from time to time for which DTC holds Bonds as Securities Depository.

DWSRF means the drinking water state revolving fund established by the State pursuant to the DWSRF Act, which fund is to be used for purposes of the Safe Drinking Water Act.

DWSRF Act means Chapter 4.5 (commencing at Section 116760) of Division 104 of the California Health and Safety Code.

DWSRF Administrative Costs means costs of the Board incurred in the general administration of the DWSRF, including overhead costs of the Board allocable to the DWSRF.

DWSRF Bond Funded Project Obligation means a DWSRF Project Obligation financed in whole or in part from the proceeds of any Series of Bonds.

DWSRF Eligible Project means a project eligible for financing pursuant to the Safe Drinking Water Act and the DWSRF Act.

DWSRF Pledged Project Obligation means a DWSRF Project Obligation which is assigned and pledged as security for the benefit of the Bonds.

DWSRF Pledged Project Obligations means the Project Obligations set forth in the Master Payment and Pledge Agreement as may be amended from time to time in accordance with the provisions described under the caption “Master Trust Indenture – Release of Pledged Project Obligations from the Lien of the Master Trust Indenture; Pledge of Additional Pledged Project Obligations”.

DWSRF Prepayment means any payment of principal on a DWSRF Pledged Project Obligation in advance of its stated due date as designated by a Recipient on a DWSRF Pledged Project Obligation.

DWSRF Project Obligation means any loan contract, installment sale agreement and any and all other agreements, resolutions and other related documents entered into by a Recipient evidencing amounts owed to the Board in connection with the financing of an DWSRF Eligible Project.

Eligible Project means either a CWSRF Eligible Project or a DWSRF Eligible Project.

Event of Default means any event of default described under the caption “Master Trust Indenture – Defaults and Remedies”.

Excluded Pledged Project Obligations means each Pledged Project Obligation which has been released from the lien of the Master Trust Indenture pursuant to the provisions of the Master Trust Indenture.

Fitch means Fitch Ratings and its successors and assigns and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by IBank by notice to the Trustee.

IBank means the California Infrastructure and Economic Development Bank, a public instrumentality and political subdivision of the State, duly organized and validly existing pursuant to the Act.

IBank Officer Certificate means a certificate signed by an Authorized IBank Officer.

IBank Reserved Rights means the rights of IBank to Bond Expenses Payments, notices, opinions and indemnification under the Master Payment and Pledge Agreement.

Interest Payment Date means the date on which any installment of interest on a Series is due other than by reason of redemption.

Investment Obligations means, as and to the extent permitted by law:

- (i) bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest;
- (ii) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States;
- (iii) bonds of the State or bonds for which the faith and credit of the State are pledged for the payment of principal and interest;
- (iv) bonds or warrants, including but not limited to revenue warrants, of any county, city, metropolitan water district, State water district, State water storage district, irrigation district in the State, municipal utility district or school district of the State which are rated within the two highest rating categories by a Rating Agency;
- (v) bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by general land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, stocks, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act, as amended, and the bonds of any federal home loan bank established under said act, obligations of the Federal Home Loan Mortgage Corporation, and bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended;
- (vi) commercial paper rated in the highest rating category by a Rating Agency that is issued by corporations (1) organized and operating within the United States, (2) having total assets in excess of \$500,000,000 and (3) approved by the Pooled Money Investment Board; provided however, that eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation nor exceed 30 percent of the resources of an investment program, and if requested by the State Treasurer, such investment shall be additionally secured by depositing with the State Treasurer securities authorized by Section 53651 of the California Government Code of a market value of at least 10 percent in excess of the amount of the investment;
- (vii) bills of exchange or time drafts drawn on and accepted by a commercial bank the general obligations of which are rated within the two highest rating categories by

a Rating Agency, otherwise known as banker's acceptances, which are eligible for purchase by the Federal Reserve System;

- (viii) negotiable certificates of deposit issued by a nationally or state- chartered bank including the Trustee and its affiliates or savings and loan association or by a state-licensed branch of a foreign bank which, to the extent they are not insured by federal deposit insurance, are issued by an institution the general obligations of which are rated in one of the two highest rating categories by a Rating Agency;
- (ix) bonds, debentures and notes issued by corporations organized and operating within the United States which securities are rated in one of the highest two rating categories by a Rating Agency;
- (x) deposits in the Surplus Money Investment Fund referred to in Section 16471 of the California Government Code;
- (xi) repurchase agreements or reverse repurchase agreements, as such terms are defined in and pursuant to the terms of Section 16480.4 of the California Government Code, which are secured by a perfected security interest in any one or more of the securities described in clauses (i) or (ii) hereof and which have an aggregate market value (determined at least weekly) at least equal to the amount invested;
- (xii) collateralized or uncollateralized investment agreements or other contractual arrangements with corporations, financial institutions or national associations within the United States, provided that the senior long-term debt of such corporations, institutions or associations is rated within the top two rating categories by each Rating Agency that has assigned a rating to such long-term debt;
- (xiii) forward purchase agreements collateralized with obligations described in (i) through (vi) above with corporations, financial institutions or national associations within the United States, provided that the senior long term debt of such corporations, institutions or associations is rated within the highest two rating categories by a Rating Agency;
- (xiv) money market funds that (a) invest solely in obligations described in clauses (i), (ii), (iii), (iv) or (xi), or any combination thereof, of this definition, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provide investment advisory or other management services or (b) are rated in the highest rating category by each Rating Agency; or
- (xv) such other investments as may be authorized by a Supplemental Indenture or Series Indenture, provided that each Rating Agency then rating the Bonds has confirmed that the use of such additional investments will not result in the reduction or withdrawal of any rating on any Outstanding Bonds.

Leveraged Portion means that portion of a Series of Bonds designated as such in the Related Series Indenture.

Master Payment and Pledge Agreement means the Amended and Restated Master Payment and Pledge Agreement dated as of April 1, 2019, by and between the Board and IBank, as amended and supplemented in accordance with the provisions thereof.

Master Payment and Pledge Agreement Default means an event of default under the Master Payment and Pledge Agreement.

Master Trust Indenture means the Amended and Restated Master Trust Indenture, dated as of April 1, 2019, by and between the IBank and the Trustee, as amended and supplemented in accordance with the terms thereof.

Moody's means Moody's Investors Service, Inc. and its successors and assigns and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by IBank by notice to the Trustee.

Municipal Index means the SIFMA Municipal Swap Index or successor index announced by Municipal Market Data and based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data, Inc. which meet specified criteria established by the Securities Industry and Financial Markets Association. The SIFMA Municipal Swap Index shall be based upon current yields of high-quality weekly adjustable variable rate demand bonds which are subject to tender upon seven days' notice, the interest on which under the Code, is excludable from gross income for federal income tax purposes. The SIFMA Municipal Swap Index shall not include any bonds the interest on which is subject to any personal "alternative minimum tax" or similar tax unless all tax exempt bonds are subject to such tax. In the event the SIFMA Municipal Swap Index or a successor index is no longer produced by Municipal Market Data, Inc. or its successor, "Municipal Index" shall mean such other reasonably comparable index selected by the Board.

Nominee means Cede & Co., as nominee of DTC, the initial Securities Depository for the Bonds, and any successor nominee of DTC and, if another Securities Depository replaces DTC as Securities Depository under the Master Trust Indenture, any nominee of such substitute Securities Depository.

Outstanding, when used with reference to Series, means, as of any particular date, the aggregate of all Bonds of such Series authenticated and delivered under the Master Trust Indenture, except:

(a) Bonds cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;

(b) Bonds for the payment or redemption of which money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent in trust for the Owners of such Bonds, provided that if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Master Trust Indenture or provision therefor satisfactory to the Trustee has been made;

(c) Bonds paid or Bonds deemed to be paid as provided in the Master Trust Indenture; and

(d) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Master Trust Indenture.

Owner means a person or persons in whose name or names a particular Bond shall be registered on the Bond Register.

Parity Reimbursement Obligation means a Reimbursement Obligation the payment of which is secured by a pledge of and a lien on collateral and revenues securing a Series.

Participant means each DTC Participant and if there is a Securities Depository for the Bonds other than DTC, each broker-dealer, bank and other financial institution from time to time for which such other Securities Depository holds Bonds as securities depository.

Party means IBank, the Board or the Trustee, as applicable.

Paying Agent means the Trustee and/or any other bank or trust company designated by IBank as paying agent for the Bonds.

Person means an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

Pledged Assets means all of IBank's right, title and interest in and to the Master Payment and Pledge Agreement (other than Board Reserved Rights and IBank Reserved Rights), the Pledged Revenues, and the funds and accounts established under the Master Trust Indenture (except amounts on deposit in the Rebate Fund).

Pledged Project Obligation means all of the CWSRF Pledged Project Obligations and DWSRF Pledged Project Obligations.

Pledged Revenues means (i) repayments of principal of and interest on the Pledged Project Obligations and Prepayments thereon, (ii) the principal and investment earnings on Investment Obligations, (iii) payments received from the United States or the State related to Bonds issued under the Master Trust Indenture and as designated in a Series Indenture, and (iv) and any other amounts held under the Master Trust Indenture and designated as Pledged Revenues.

Pooled Money Investment Board means the State entity created pursuant to Government Code Section 16480.1.

Prepayments means all of the CWSRF Prepayment and DWSRF Prepayment.

Principal Payment Date means the date on which any principal on a Series is due other than by reason of redemption.

Qualified Swap Agreement means a contract or agreement wherein the payments required thereunder (other than payments of fees and expenses and termination payments which shall in all cases be payable on a subordinate basis) are payable from Pledged Revenues on a parity with the payment of a Series, including, without limitation, any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between IBank and the counterparty to the Qualified Swap Agreement, provided that in each case (i) the notional amount of the Qualified Swap Agreement shall not exceed the principal

amount of the related Series or portion thereof or the amount of such investments, as applicable, and (ii) IBank shall have received a Rating Confirmation with respect to the Bonds.

Rating Agency means, each or collectively, Fitch, Moody's and S&P.

Rating Confirmation means written evidence from each rating agency then rating a Series to the effect that, following the event which requires the Rating Confirmation, the then current rating for such Series will not be lowered or withdrawn solely as a result of the occurrence of such event.

Recipient means each municipality (as defined in the Clean Water Act and the CWSRF Act) which may receive financial assistance under a CWSRF Project Obligation or public agencies operating public water systems (as defined in the Safe Drinking Water Act and the DWSRF Act) which may receive financial assistance under a DWSRF Project Obligation.

Refunding Bonds means any Bonds issued under the Master Trust Indenture, the proceeds of which are to be used to pay the principal of, premium, if any, or interest on any Outstanding Bonds.

Reimbursement Obligation means an obligation of IBank described as such in the Master Trust Indenture to reimburse directly the Credit Provider for amounts paid pursuant to a Credit Facility.

Related, as the context may require, means (i) when used with respect to any Costs of Issuance Fund, Bond Proceeds Fund, Rebate Fund, or any account within any such fund, the fund, account or subaccount so designated and established by the Series Indenture authorizing a particular Series, (ii) when used with respect to a Series Indenture, the Series Indenture authorizing a particular Series, (iii) when used with respect to a Series, the Series issued under the Related Series Indenture, (iv) when used with respect to a Credit Provider, Credit Facility or Parity Reimbursement Obligation, the Credit Provider providing the Credit Facility for a particular Series, the Credit Facility securing or supporting such Series and the Parity Reimbursement Obligation entered into in connection therewith, respectively, and (v) when used with respect to a Tax Certificate, the Tax Certificate entered into in connection with a particular Series.

Safe Drinking Water Act means the Safe Drinking Water Act of 1974 (42 U.S.C. § 300 et seq.), and the rules and regulations promulgated thereunder.

S&P means Standard & Poor's Credit Markets Services and its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by IBank by notice to the Trustee.

Series means all of the Bonds of a particular Series authenticated and delivered pursuant to a Series Indenture, and any Bonds of such Series thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to the Master Trust Indenture.

Series Indenture means a series indenture providing for the issuance of a Series, as amended and supplemented in accordance with the terms thereof by a Supplemental Indenture.

State means the State of California.

State Match Portion means that portion of a Series of Bonds which are to be used to provide amounts necessary to fund a State Matching Grant designated as such in the Related Series Indenture.

State Matching Grant means the matching grant required pursuant to any Capitalization Grant.

State Treasurer means the Treasurer of the State of California and his or her duly authorized representative.

Supplemental Indenture means any indenture supplementary to or amendatory of the Master Trust Indenture or a Series Indenture executed and delivered pursuant to Article XI of the Master Trust Indenture.

Swap means any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between IBank and the counterparty to the Swap, which is not a Qualified Swap Agreement.

Tax Certificate means the tax certificate or other similar document setting forth provisions to assure compliance by IBank and the Board with requirements of the Code as conditions to the exclusion of interest on any Tax-Exempt Bonds, as the same may be amended or supplemented, all as may be more particularly described in the Related Series Indenture.

Tax-Exempt Bonds means Bonds the interest on which is intended on their date of issuance to be excludable from gross income of the Owners thereof for federal income tax purposes and designated as such in the Related Series Indenture.

Trust Office means the office of the Trustee at which at any particular time its trust business shall be principally administered, which office at the date hereof is located in Sacramento, California, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its trust agency business shall be conducted.

Trustee means, in its capacity as trustee under the Master Trust Indenture, the State Treasurer, any agent of the State Treasurer or any successor Trustee as provided in the Master Trust Indenture.

## **MASTER TRUST INDENTURE**

### **Pledge and Assignment Effected by Master Trust Indenture**

All Bonds of each and every Series issued and to be issued under the Master Trust Indenture are, and are to be, to the extent provided in the Master Trust Indenture, equally and ratably secured by the Master Trust Indenture without preference, priority or distinction on account of the actual time or times of the authentication or delivery or maturity or redemption of the Bonds of such Series or any of them, so that all Bonds and any Related Parity Reimbursement Obligation at any time Outstanding thereunder shall have the same right, lien and preference under and by virtue of the Master Trust Indenture and shall all be equally and ratably secured with like effect as if they had all been executed,

authenticated and delivered simultaneously on the date thereof ; provided that moneys representing the repayment of principal of Pledged Project Obligations shall not be pledged to or used for the payments of the State Match Portion of Bonds; and provided further, that Bonds may be issued as subordinated debt, as designated as such under a Series Indenture. The aggregate principal amount of Bonds which may be executed and delivered by IBank and authenticated by the Trustee and secured by the Master Trust Indenture is not limited except as is or may hereafter be provided in the Master Trust Indenture or as may be limited by law.

Subject only to the provisions of the Master Trust Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein and, subject to the rights of the Owners, there are pledged to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Master Trust Indenture, the Pledged Assets, subject to the provisions thereof. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Bonds, without any physical delivery thereof or further act.

### **Creation and Custody of Funds and Accounts**

Initially, and as long as the State Treasurer is the Trustee, all such funds and Related accounts that may be established for each Related Series shall be within the State Treasury.

There shall be established, maintained and held in trust the following funds:

- (1) A Clean Water Costs of Issuance Fund and a Drinking Water Costs of Issuance Fund;
- (2) A Clean Water Bond Proceeds Fund and a Drinking Water Bond Proceeds Fund;
- (3) A Clean Water Restricted Assets Fund and a Drinking Water Restricted Assets Fund;
- (4) A Clean Water Debt Service Fund and a Drinking Water Debt Service Fund;
- (5) A Clean Water Debt Service Reserve Fund and a Drinking Water Debt Service Reserve Fund; and
- (6) A Clean Water Prepayment Fund and a Drinking Water Prepayment Fund.

There shall be established, maintained and held in trust for each Series as applicable a Related Clean Water Costs of Issuance Fund and a Related Drinking Water Costs of Issuance Fund, and as applicable, a Related Clean Water Bond Proceeds Fund and a Related Drinking Water Bond Proceeds Fund. IBank, the State Treasurer, as Trustee, and the Board may by execution and delivery of a Series Indenture or by delivery of an IBank Officer Certificate or Board Officer Certificate, establish one or more additional funds, accounts or subaccounts as may be determined to be necessary or useful in administering the funds and accounts established under the master Trust Indenture.

The Trustee shall control each Related Clean Water Costs of Issuance Fund, Related Drinking Water Costs of Issuance Fund, Clean Water Debt Service Fund, Drinking Water Debt Service Fund, Clean Water Debt Service Reserve Fund, and Drinking Water Debt Service Reserve Fund, each of which shall be disbursed and applied as provided in the Master Trust Indenture and in each Related Series Indenture. The Board shall control each Related Clean Water Bond Proceeds Fund, Related Drinking Water Bond Proceeds Fund, Clean Water Restricted Assets Fund, Drinking Water Restricted Assets Fund, Clean Water Prepayment Fund, and Drinking Water Prepayment Fund, each of which shall be disbursed and applied as provided in the Master Trust Indenture and as may be provided in a Series Indenture.

At such time as the Board shall determine that amounts are required to be deposited into a rebate fund in accordance with a Tax Certificate, it shall notify the Trustee and the Trustee shall establish and maintain or cause to be established and maintained in trust a Clean Water Rebate Fund and a Drinking Water Rebate Fund. The Trustee shall control each Rebate Fund.

For purposes of compliance with the Clean Water Act or the CWSRF Act or regulations and policies promulgated thereunder restricting the use of moneys within the CWSRF, moneys in each of the funds and accounts established under the Master Trust Indenture that are allocable to proceeds of Bonds issued to fund CWSRF Bond Funded Project Obligations shall be deemed to be within the CWSRF (except any Related Clean Water Costs of Issuance Fund, which shall be segregated from the other funds and accounts under the Master Trust Indenture). For purposes of compliance with the Safe Drinking Water Act or the DWSRF Act or regulations and policies promulgated thereunder restricting the use of moneys within the DWSRF, moneys in each of the funds and accounts established under the Master Trust Indenture that are allocable to proceeds of Bonds issued to fund DWSRF Bond Funded Project Obligations shall be deemed to be within the DWSRF (except any Related Drinking Water Costs of Issuance Fund, which shall be segregated from the other funds and accounts under the Master Trust Indenture).

After all of the Bonds and any other amounts owing under the Master Trust Indenture have been paid in full, then all of the funds and accounts created under the Master Trust Indenture shall be closed by the Trustee and the Board, as applicable, and any amounts remaining on deposit in such closed funds and accounts shall be applied by the Trustee in accordance with a Board Officer Certificate.

### **Bond Proceeds Funds**

There shall be deposited into a Related Clean Water Bond Proceeds Fund (i) the proceeds of a Series as provided in the Related Series Indenture, (ii) amounts transferred from a Related Clean Water Costs of Issuance Fund and (iii) any other amounts deposited therein by the Board. There shall be deposited into a Related Drinking Water Bond Proceeds Fund (i) the proceeds of a Series as provided in the Related Series Indenture, (ii) amounts transferred from a Related Drinking Water Costs of Issuance Fund and (iii) any other amounts deposited therein by the Board.

Amounts deposited in a Related Clean Water Bond Proceeds Fund shall be applied by the Board to (i) fund CWSRF Bond Funded Project Obligations, (ii) to refund bonds issued to fund CWSRF Bond Funded Project Obligations, (iii) pay Debt Service on that portion of a Series of Bonds issued to fund CWSRF Bond Funded Project Obligations, (iv) pay Bond Expenses of Bonds issued to fund CWSRF Bond Funded Project Obligations, (v) satisfy the Related Rebate Requirement (as provided in the Related Tax Certificate) with respect to a Series of Bonds, and (vi) such other purpose as provided for a Series of Bonds, each as may be provided in the Related Series Indenture. Upon receipt of a Board Officer Certificate that no further amounts are to be expended from a Clean Water Bond Proceeds Fund, the Trustee shall transfer amounts remaining on deposit therein to the Clean Water Debt Service Fund.

Investment earnings on amounts in the Clean Water Bond Proceeds Fund shall be transferred when received to the Clean Water Debt Service Fund.

Amounts deposited in a Related Drinking Water Bond Proceeds Fund shall be applied by the Board to (i) fund DWSRF Bond Funded Project Obligations, (ii) to refund bonds issued to fund DWSRF Bond Funded Project Obligations, (iii) pay Debt Service on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations, (iv) pay Bond Expenses of Bonds issued to fund DWSRF Bond Funded Project Obligations, (v) satisfy the Related Rebate Requirement (as provided in the Related Tax Certificate) with respect to a Series of Bonds, and (vi) such other purpose as provided for a Series of Bonds, each as may be provided in the Related Series Indenture. Upon receipt of a Board Officer Certificate that no further amounts are to be expended from a Drinking Water Bond Proceeds Fund, the Trustee shall transfer amounts remaining on deposit therein to the Drinking Water Debt Service Fund. Investment earnings on amounts in the Drinking Water Bond Proceeds Fund shall be transferred when received to the Drinking Water Debt Service Fund.

### **Costs of Issuance Funds**

There shall be deposited into a Related Clean Water Costs of Issuance Fund and a Related Drinking Water Costs of Issuance Fund the proceeds of a Series and any other amounts deposited therein by the Board as may be provided in the Related Series Indenture.

Amounts held in a Related Clean Water Costs of Issuance Fund or a Related Drinking Water Costs of Issuance Fund shall be applied to the payment of Costs of Issuance upon receipt by the Trustee of an IBank Officer Certificate in the form attached to the Master Trust Indenture. Upon receipt of an IBank Officer Certificate that no further Costs of Issuance are to be paid from a Related Clean Water Costs of Issuance Fund or a Related Drinking Water Costs of Issuance Fund, the Trustee shall (i) transfer any other amounts remaining on deposit therein from the proceeds of Bonds issued to fund CWSRF Bond Funded Project Obligations as directed by the Board in a Board Officer Certificate either to the Clean Water Debt Service Fund or the Related Clean Water Bond Proceeds Fund and (ii) transfer any other amounts remaining on deposit therein from proceeds of Bonds issued to fund DWSRF Bond Funded Project Obligations as directed by the Board in a Board Officer Certificate either to the Drinking Water Debt Service Fund or the Related Drinking Water Bond Proceeds Fund. Investment earnings on amounts in a Related Clean Water Costs of Issuance Fund shall be transferred when received to the Clean Water Debt Service Fund. Investment earnings on amounts in a Related Drinking Water Costs of Issuance Fund shall be transferred when received to the Drinking Water Debt Service Fund.

### **Restricted Assets Funds**

There shall be deposited into the Clean Water Restricted Assets Fund all amounts received as principal of or interest on the CWSRF Pledged Project Obligations and any CWSRF Prepayments transferred from the Clean Water Prepayment Fund as provided in the provisions described under the caption “Master Trust Indenture – Prepayment Funds” to the Clean Water Restricted Assets Fund and any amounts directed to be deposited therein by the Board. Investment earnings on amounts in the Clean Water Restricted Assets Fund shall be transferred when received to the Clean Water Debt Service Fund.

Amounts deposited into the Clean Water Restricted Assets Fund shall be applied to pay or reimburse the Board and IBank for any Bond Expenses reasonably incurred in connection with an Event of Default, and thereafter shall be transferred to the funds and accounts established in the provisions described under the caption “Master Trust Indenture – Prepayment Requirements” to pay amounts due from the Board as required by the Master Trust Indenture and thereafter shall be transferred

to reimburse the Drinking Water Restricted Assets Fund in accordance with Master Trust Indenture. After the foregoing transfers, amounts held by the Board in the Clean Water Restricted Assets Fund may be applied at the discretion of the Board as follows: (i) to pay for CWSRF Administrative Costs, (ii) to acquire a CWSRF Pledged Project Obligation, (iii) to the redemption or purchase of Bonds issued to fund CWSRF Bond Funded Project Obligations as provided in the Master Trust Indenture and a Related Series Indenture, (iv) to make payments required by the provisions described under the caption “Master Payment and Pledge Agreement – Payments to Trustee and IBank, or (v) subject to the payment of any amounts necessary to satisfy the Related Rebate Requirement (as provided in the Related Tax Certificate) and, upon the filing of a Board Officer Certificate with the Trustee and IBank which demonstrates that the Coverage Test is satisfied in each Bond Year the Bonds are scheduled to be Outstanding, released from the lien of the Master Trust Indenture and the Master Payment and Pledge Agreement and transferred to the CWSRF free and clear of such liens and applied by the Board for any lawful purpose.

There shall be deposited into the Drinking Water Restricted Assets Fund all amounts received as principal of or interest on the DWSRF Pledged Project Obligations, any DWSRF Prepayments transferred from the Drinking Water Prepayment Fund pursuant to the Master Trust Indenture to the Drinking Water Restricted Assets Fund and any amounts directed to be deposited therein by the Board. Investment earnings on amounts in the Drinking Water Restricted Assets Fund shall be transferred when received to the Drinking Water Debt Service Fund.

Amounts deposited into the Drinking Water Restricted Assets Fund shall be applied to pay or reimburse the Board and IBank for any Bond Expenses reasonably incurred in connection with an Event of Default, and thereafter shall be transferred to the funds and accounts established in the provisions described under the caption “Master Trust Indenture – Payment Requirements” to pay amounts due from the Board in accordance with the Master Trust Indenture, and thereafter shall be transferred to reimburse the Clean Water Restricted Assets Fund in accordance with the Master Trust Indenture. After the foregoing transfers, amounts held by the Board in the Drinking Water Restricted Assets Fund may be applied at the discretion of the Board as follows: (i) to pay for DWSRF Administrative Costs, (ii) to acquire a DWSRF Pledged Project Obligation, (iii) to the redemption or purchase of Bonds issued to fund DWSRF Bond Funded Project Obligations as provided in the Master Trust Indenture and a Related Series Indenture, (iv) to make payments required under the Master Payment and Pledge Agreement, or (v) subject to the payment of any amounts necessary to satisfy the Related Rebate Requirement (as provided in the Related Tax Certificate) and, upon the filing of a Board Officer Certificate with the Trustee and IBank which demonstrates that the Coverage Test is satisfied in each Bond Year the Bonds are scheduled to be Outstanding, released from the lien of the Master Trust Indenture and the Master Payment and Pledge Agreement and transferred to the DWSRF free and clear of the such liens and applied by the Board for any lawful purpose.

### **Prepayment Funds**

CWSRF Prepayments shall be deposited into the Clean Water Prepayment Fund. Amounts in the Clean Water Prepayment Fund shall be transferred to the Clean Water Restricted Assets Fund at any time but in no event not less than once each calendar year upon direction of the Board. Investment earnings on amounts in the Clean Water Prepayment Fund shall be transferred when received to the Clean Water Debt Service Fund.

DWSRF Prepayments shall be deposited into the Drinking Water Prepayment Fund. Amounts in the Drinking Water Prepayment Fund shall be transferred to the Drinking Water Restricted Assets Fund at any time but in no event not less than once each calendar year upon direction of the Board. Investment earnings on amounts in the Drinking Water Prepayment Fund shall be transferred when received to the Drinking Water Debt Service Fund.

## Debt Service Funds

(a) There shall be deposited into the Clean Water Debt Service Fund the amounts due on each Related Board Payment Date and investment earnings on amounts in any Related Clean Water Bond Proceeds Fund pursuant to the provisions described under the caption “Master Trust Indenture – Bond Proceeds Funds”, the Clean Water Restricted Assets Fund pursuant to the provisions described under the caption “Master Trust Indenture – Restricted Assets Funds” and the Clean Water Prepayment Fund pursuant to the provisions described under the caption “Master Trust Indenture – Prepayment Funds”. Interest earnings on amounts held in the Clean Water Debt Service Fund shall be credited and held in the Clean Water Debt Service Fund. Amounts in the Clean Water Debt Service Fund shall be transferred in the following priorities from the funds and accounts established under the Master Trust Indenture; provided, however, that if an Event of Default shall have occurred and be continuing, prior to any transfers by the Board of amounts into the Clean Water Debt Service Fund as provided in this caption, the Board may first retain from amounts in the Clean Water Restricted Assets Fund such amounts as are necessary to pay or reimburse the Board and IBank for any Bond Expenses reasonably incurred in connection with such Event of Default; and provided further, that the State Match Portion of a Series of Bonds issued to fund CWSRF Bond Funded Project Obligations may not be paid from principal repayments received on CWSRF Pledged Project Obligations in accordance with the Related Series Indenture:

- (i) Amounts designated to be used from proceeds of a Series and transferred pursuant to the provisions described under the caption “Master Trust Indenture – Bond Proceeds Fund” to pay Debt Service on the Series, each as provided in the Related Series Indenture;
- (ii) Amounts transferred from a Clean Water Debt Service Reserve Fund pursuant to the provisions described under the caption “Master Trust Indenture – Debt Service Reserve Fund”;
- (iii) Investment on amounts held in a Clean Water Debt Service Reserve Fund transferred pursuant to the provisions described under the caption “Master Trust Indenture – Debt Service Reserve Fund”;
- (iv) Amounts transferred from the Clean Water Prepayment Fund pursuant to the provisions described under the caption “Master Trust Indenture – Prepayment Funds”;
- (v) Amounts transferred from the Clean Water Restricted Assets Fund pursuant to the provisions described under the caption “Master Trust Indenture – Restricted Assets Funds”, as provided in paragraphs (a)(i) and (a)(ii) under the caption “Master Trust Indenture – Payment Requirements”;
- (vi) Amounts transferred from a Clean Water Debt Service Reserve Fund pursuant to the provisions described under the caption “Master Trust Indenture – Debt Service Reserve Funds”;
- (vii) Amounts transferred from the Drinking Water Restricted Assets Fund pursuant to the provisions described under the caption “Master Trust Indenture – Restricted Assets Funds”, as provided in paragraphs (b)(iii) and (b)(iv) under the caption “Master Trust Indenture – Payment Requirements”;

- (viii) Amounts transferred from the Clean Water Restricted Assets Fund pursuant to the provisions described under the caption “Master Trust Indenture – Restricted Assets Funds”, as provided in paragraph (a)(v) under the caption “Master Trust Indenture – Payment Requirements”; and
- (ix) Any other amounts deposited therein by the Board.

Amounts held in the Clean Water Debt Service Fund shall be applied by the Trustee on each Related Bond Payment Date to pay Debt Service on the Bonds issued to fund CWSRF Bond Funded Project Obligations. Thereafter, any amounts in excess of the amounts required to pay interest on a Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Bond Payment Date when interest is due and payable and principal on a Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Bond Payment Date when principal is due and payable in the Clean Water Debt Service Fund may be applied to pay Bond Expenses with respect to Bonds issued to fund CWSRF Bond Funded Project Obligations or, at the direction of the Board set forth in a Board Officer Certificate, released from the lien of the Master Trust Indenture, the Related Series Indenture and the Master Payment and Pledge Agreement and applied by the Board for any lawful purpose.

(b) There shall be deposited into the Drinking Water Debt Service Fund the amounts due on each Related Board Payment Date and investment earnings on amounts in any Related Drinking Water Bond Proceeds Fund pursuant to the provisions described under the caption “Master Trust Indenture – Bond Proceeds Funds”, the Drinking Water Restricted Assets Fund pursuant to the provisions described under the caption “Master Trust Indenture – Restricted Assets Funds” and the Drinking Water Prepayment Fund pursuant to the provisions described under the caption “Master Trust Indenture – Prepayment Funds”. Interest earnings on amounts held in the Drinking Water Debt Service Fund shall be credited and held in the Drinking Water Debt Service Fund. Amounts in the Drinking Water Debt Service Fund shall be transferred in the following priorities from the funds and accounts established under the Master Trust Indenture; provided, however, that if an Event of Default shall have occurred and be continuing, prior to any transfers by the Board of amounts into the Drinking Water Debt Service Fund as provided in this caption, the Board may first retain from amounts in the Drinking Water Restricted Assets Fund such amounts as are necessary to pay or reimburse the Board and IBank for any Bond Expenses reasonably incurred in connection with such Event of Default; and provided further, that the State Match Portion of a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations may not be paid from principal repayments received on DWSRF Pledged Project Obligations in accordance with the Related Series Indenture:

- (i) Amounts designated to be used from proceeds of a Series and transferred pursuant to the provisions described under the caption “Master Trust Indenture – Bond Proceeds Funds” to pay Debt Service on the Series, each as provided in the Related Series Indenture;
- (ii) Amounts transferred from a Drinking Water Debt Service Reserve Fund pursuant to the provisions described under the caption “Master Trust Indenture – Debt Service Reserve Funds” ;
- (iii) Investment on amounts held in a Drinking Water Debt Service Reserve Fund transferred pursuant to the provisions described under the caption “Master Trust Indenture – Debt Service Reserve Funds”;

- (iv) Amounts transferred from the Drinking Water Prepayment Fund pursuant to the provisions described under the caption “Master Trust Indenture – Prepayment Funds”;
- (v) Amounts transferred from the Drinking Water Restricted Assets Fund pursuant to the provisions described under the caption “Master Trust Indenture – Restricted Assets Funds”, as provided in paragraphs (b)(i) and (b)(ii) under the caption “Master Trust Indenture – Payment Requirements”;
- (vi) Amounts transferred from the Drinking Water Debt Service Reserve Fund pursuant to the provisions described under the caption “Master Trust Indenture – Debt Service Reserve Funds”;
- (vii) Amounts transferred from the Clean Water Restricted Assets Fund pursuant to the provisions described under the caption “Master Trust Indenture – Restricted Assets Funds”, as provided in paragraphs (a)(iii) and (a)(iv) under the caption “Master Trust Indenture – Payment Requirements”;
- (viii) Amounts transferred from the Drinking Water Restricted Assets Fund pursuant to the provisions described under the caption “Master Trust Indenture – Restricted Assets Funds”, as provided in paragraph (b)(v) under the caption “Master Trust Indenture – Payment Requirements”.
- (ix) Any other amounts deposited therein by the Board.

Amounts held in the Drinking Water Debt Service Fund shall be applied by the Trustee on each Related Bond Payment Date to pay Debt Service on the Bonds issued to fund DWSRF Bond Funded Project Obligations. Thereafter, any amounts in excess of the amounts required to pay interest on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the next succeeding Bond Payment Date when interest is due and payable and principal on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the next succeeding Bond Payment Date when principal is due and payable in the Drinking Water Debt Service Fund may be applied to pay Bond Expenses with respect to Bonds issued to fund DWSRF Bond Funded Project Obligations or, at the direction of the Board set forth in a Board Officer Certificate, released from the lien of the Master Trust Indenture, the Related Series Indenture and the Master Payment and Pledge Agreement and applied by the Board for any lawful purpose.

### **Debt Service Reserve Fund**

The Board may establish a Debt Service Reserve Fund Requirement for a Series of Bonds as set forth in a Series Indenture. There shall be deposited in a Debt Service Reserve Fund (i) amounts deposited from proceeds of a Series as provided in the Related Series Indenture and (ii) amounts transferred by the Board from available money, including draws on Capitalization Grants and State Matching Grants identified to the Trustee.

On or after each Related Bond Payment Date, investment earnings shall be transferred from the Clean Water Debt Service Reserve Fund to the Clean Water Debt Service Fund and from the Drinking Water Debt Service Reserve Fund to the Drinking Water Debt Service Fund, as provided in a Series Indenture.

Amounts on deposit in a Debt Service Reserve Fund shall be applied by the Trustee in accordance with paragraph (a)(vi) under the caption “Master Trust Indenture – Debt Service Funds”, to be applied ratably among all Series of Bonds secured by such Debt Service Reserve Fund, to the extent that amounts available in accordance with paragraphs (a)(i) through (v) under the caption “Master Trust Indenture – Debt Service Funds or paragraphs (b)(i) through (v) under the caption “Master Trust Indenture – Debt Service Funds”, as applicable, are insufficient therefor. Amounts on deposit in a Debt Service Reserve Fund shall be applied by the Trustee in accordance with either paragraph (a)(vi) or (b)(vi), or both, under the caption “Master Trust Indenture – Debt Service Funds”, to the extent that amounts available in accordance with paragraphs (a)(i) through (v) or (b)(i) through (v), or both, under the caption “Master Trust Indenture – Debt Service Funds”, are insufficient therefor.

On the Business Day following each Related Bond Payment Date on which principal of a Series is due and payable, the Trustee shall transfer from a Clean Water Debt Service Reserve Fund, at the direction of the Board pursuant to a Board Officer Certificate, amounts in excess of the applicable Debt Service Reserve Fund Requirement to the Related Rebate Fund at the direction of the Board an amount equal to any Rebate Requirement (as provided in each Tax Certificate). Thereafter, any amounts in excess of a Debt Service Reserve Fund Requirement shall, to the extent such Clean Water Debt Service Reserve Fund was initially funded with proceeds of a Series, be transferred to the Clean Water Debt Service Fund and applied to pay Debt Service on the Bonds, and otherwise may be applied at the direction of the Board as set forth in a Board Officer Certificate to pay Bond Expenses or released from the lien of this Master Trust Indenture and the Master Payment and Pledge Agreement and applied by the Board for any lawful purpose.

### **Rebate Funds**

There shall be deposited into a Clean Water Rebate Fund and a Drinking Water Rebate Fund such amounts as are required pursuant to the Related Tax Certificate. Amounts in a Clean Water Rebate Fund and Drinking Water Rebate Fund shall be applied as set forth in the Related Tax Certificate. The Trustee may rely conclusively upon the Board's determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Board's calculations made pursuant to the Related Tax Certificate.

### **Payment Requirements**

(a) The amount due and payable on a Board Payment Date with respect to Bonds issued to fund CWSRF Bond Funded Project Obligations shall be determined as follows and in the following order:

- (i) The amount necessary to pay the interest portion of the Amount Payable due on such Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which interest is due (less amounts to be used to pay interest on the Related Series as provided under the caption “Master Trust Indenture – Debt Service Funds”, provided that the Board may include in its calculation of the amounts paid to the Trustee any investment earnings transferred from the Clean Water Debt Service Reserve Fund to the Clean Water Debt Service Fund pursuant to the provisions described under the caption “Master Trust Indenture – Debt Service Reserve Funds” and interest earnings on deposit in the Clean Water Debt Service Fund);

- (ii) The amount necessary to pay the principal portion of the Amount Payable due on such Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which principal is due;
- (iii) The amount necessary to pay the interest portion of the Amount Payable due on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which interest is due for which payments pursuant to paragraph (b)(i) under this caption are insufficient.
- (iv) The amount necessary to pay the principal portion of the Amount Payable due on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which principal is due for which payments pursuant to paragraph (b)(ii) under this caption are insufficient.
- (v) The amount necessary to pay any other amounts that remain due and unpaid;
- (vi) The amount necessary to pay any such amounts as are required pursuant to a Related Tax Certificate at the direction of the Board; and
- (vii) The amount necessary to pay for Bond Expenses as directed by the Board and IBank.

(b) The amount due and payable on a Board Payment Date with respect to Bonds issued to fund DWSRF Bond Funded Project Obligations shall be determined as follows and in the following order:

- (i) The amount necessary to pay the interest portion of the Amount Payable due on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which interest is due (less amounts to be used to pay interest on the Related Series as provided in paragraph (b)(i) under the caption “Master Trust Indenture – Debt Service Funds” , provided that the Board may include in its calculation of the amounts paid to the Trustee any investment earnings transferred from the Drinking Water Debt Service Reserve Fund to the Drinking Water Debt Service Fund pursuant to the provisions described under the caption “Master Trust Indenture – Debt Service Reserve Funds” and interest earnings on deposit in the Drinking Water Debt Service Fund);
- (ii) The amount necessary to pay the principal portion of the Amount Payable due on a Series of Bonds issued to fund DWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which principal is due;
- (iii) The amount necessary to pay the interest portion of the Amount Payable due on a Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which interest is due for which payments pursuant to paragraph (a)(i) under this caption are insufficient.
- (iv) The amount necessary to pay the principal portion of the Amount Payable due on a Series of Bonds issued to fund CWSRF Bond Funded Project Obligations on the next succeeding Related Bond Payment Date on which principal is due for which payments pursuant to paragraph (a)(ii) under this caption are insufficient.

- (v) The amount necessary to pay any other amounts that remain due and unpaid;
- (vi) The amount necessary to pay such amounts as are required pursuant to a Related Tax Certificate at the direction of the Board; and
- (vii) The amount necessary to pay for Bond Expenses as directed by the Board and IBank.

(c) In the event that 30 days prior to each Board Payment Date there are insufficient funds available to pay all the amounts set forth above due on the next Board Payment Date, the Trustee shall deliver to the Board an invoice setting forth by Series any unpaid amounts due and owing on such Board Payment Date.

### **Moneys Held by the Trustee**

All moneys from time to time received by the Trustee and held in any fund created pursuant to the Master Trust Indenture, except amounts held in a Rebate Fund, shall be held in trust by the Trustee for the benefit of the Owners from time to time of the Bonds entitled to be paid therefrom. Moneys held by the Trustee in trust under the Master Trust Indenture need not be segregated from other funds except to the extent required by law and except that the Rebate Fund shall be segregated from all other funds.

### **Moneys Held by the Board**

All moneys from time to time received by the Board and held in any fund created pursuant to the Master Trust Indenture or a Series Indenture, except as otherwise provided in the Master Trust Indenture, shall be held by the Board for the benefit of the Owners from time to time of the Bonds entitled to be paid therefrom. Moneys held by the Board for the benefit of the Owners of the Bonds and subject to the pledge of the provisions described under the caption “Master Trust Indenture – Pledge and Assignment” need not be segregated from other funds except to the extent required by law.

### **Investment of, and Payment of Interest on, Moneys; Valuation of Investments**

Moneys on deposit in each fund and account created and maintained under the Master Trust Indenture and any Series Indenture by the Trustee shall, pursuant to a Board Officer Certificate, be invested by the Trustee in Investment Obligations. Absent instructions from the Board, the Trustee shall invest in Investment Obligations of the type described in paragraph (xiv) of the definition thereof, except when the State Treasurer is the Trustee, investments shall, absent instructions from the Board, be only of the type described in paragraph (x) of the definition thereof. Moneys on deposit in each fund and account created and maintained under the Master Trust Indenture and any Series Indenture by the Board shall be invested by the Board in Investment Obligations of the type described in paragraph (x) of the definition thereof. Investments of moneys on deposit in any fund or account established under the Master Trust Indenture or a Series Indenture shall have maturity dates, or shall be subject to redemption or tender at the option of the Trustee or the Board, as applicable, which dates shall be on or prior to the respective dates on which the moneys invested therein are payable for the purposes of such funds. The securities purchased with the moneys in each such fund shall be held by or under the control of the Trustee or the Board, as applicable, and shall be deemed a part of such fund. The interest, including any realized increment on securities purchased at a discount, received on all such securities in any fund shall be deposited to the credit of such funds and accounts as provided in the Master Trust Indenture. Losses, if any, realized on securities held in any fund or account shall be debited to such fund or account. The Trustee shall not be liable or responsible for any loss resulting from any such investment or resulting from

the redemption, sale or maturity of any such investment as therein authorized. If at any time it shall become necessary that some or all of the securities purchased with the moneys in any such fund or account be redeemed or sold in order to raise the moneys necessary to comply with the provisions of the Master Trust Indenture or Series Indenture, the Trustee shall effect such redemption or sale, employing in the case of a sale any commercially reasonable method of effecting such sale.

Unless otherwise specified in a Series Indenture, for the purpose of determining the amount in any such fund or account, all Investment Obligations credited to any fund or account established under the Master Trust Indenture shall be valued at cost.

### **Disposition of Amounts After Payment of Bonds**

The Trustee shall deliver to the Board pursuant to a certificate of an Authorized Board Officer any amounts remaining in any fund or account created under the Master Trust Indenture or a Series Indenture after payment in full of principal of, premium, if any, and interest on the Bonds, or provisions for payment thereof having been made in accordance with the provisions of the Master Trust Indenture and any Series Indenture, and payment of all the fees, charges and expenses of IBank, the Trustee and any Paying Agent, provided that no Event of Default shall have occurred and be continuing and there shall not be any Debt Service Reserve Fund Deficiency.

### **Payment of Principal of and Interest and Premium on Bonds**

IBank will promptly pay, but solely from the Pledged Revenues and other funds held by the Trustee and available therefor, the principal of, and the interest on, every Bond issued under and secured by the Master Trust Indenture and any sinking fund payments provided in the Master Trust Indenture and any premium required to be paid for the retirement of said Bonds by redemption, at the places, on the dates and in the manner specified in any Series Indenture and in said Bonds according to the true intent and meaning thereof.

IBank shall not create a pledge, lien or charge upon the Pledged Assets other than as provided in the Master Trust Indenture; provided however that, a pledge, lien or charge subject and subordinate to the pledge and lien created pursuant to the Master Trust Indenture may be created with the prior written consent of the Board.

### **Tax Covenants**

To the extent within its control, IBank shall not use or permit the use of any proceeds of the Bonds to acquire any securities or obligations that would cause the interest on Tax-Exempt Bonds to become subject to federal income taxation, and, to the extent within its control, shall not take or permit to be taken any other action or actions, which would cause any such Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable regulations promulgated from time to time thereunder. IBank covenants to comply with the provisions and procedures of each Tax Certificate.

Notwithstanding any provisions of the Master Trust Indenture concerning Tax Covenants or any Tax Certificate, if IBank shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under the provisions of the Master Trust Indenture concerning Tax Covenants is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on any Tax-Exempt Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the provisions of the Master Trust Indenture concerning Tax Covenants, and, notwithstanding any other provision of the

Master Trust Indenture or any Tax Certificate, the covenants thereunder shall be deemed to be modified to that extent.

### **Release of Pledged Project Obligations from the Lien of the Master Trust Indenture; Pledge of Additional Pledged Project Obligations**

The Board may release Pledged Project Obligations from the lien of the Master Payment and Pledge Agreement so as to become Excluded Pledged Project Obligations or substitute and add CWSRF Project Obligations and DWSRF Project Obligations to the lien of the Master Payment and Pledge Agreement by providing and filing with the Trustee, IBank and each Rating Agency then rating the Bonds, (1) a revised Schedule to the Master Payment and Pledge Agreement, describing the Pledged Project Obligations to be released and, if applicable, substituted therefor or added thereto, and (2) a Board Officer Certificate which demonstrates that the Coverage Test is satisfied in each year the Bonds are scheduled to be Outstanding.

IBank and the Trustee shall execute a release and such other instruments as the Board or IBank may reasonably request in order to evidence the release from the lien of the Master Trust Indenture and the Master Payment and Pledge Agreement of the Excluded Pledged Project Obligations and related rights of payment thereon.

### **State Match Portion of the Bonds Not Payable from Principal Repayments Received on Pledged project Obligations**

The State Match Portion of the Bonds may not be payable from principal repayments received on Pledged Project Obligations.

### **Events of Default**

The occurrence and continuances of one or more of the following events shall constitute an Event of Default for purposes of the Master Trust Indenture:

- (a) default in the payment of any installment of interest in respect of any Bond as the same shall become due and payable;
- (b) default in the payment of the principal of or premium, if any, in respect of any Bond as the same shall become due and payable either at maturity, upon redemption, by declaration or otherwise;
- (c) default in the payment of any sinking fund installment in respect of any Bond as the same shall become due and payable;
- (d) default in the observance or performance of any other covenant or agreement of IBank or the Board contained in the Master Trust Indenture and the continuance thereof for a period of sixty (60) days after written notice thereof to IBank and the Board given by the Trustee; or
- (e) any Master Payment and Pledge Agreement Default on the part of the Board under the Master Payment and Pledge Agreement shall occur and be continuing for a period of sixty (60) days after written notice thereof to IBank and the Board given by the Trustee.

## **Remedies**

Upon the happening and continuance of any Event of Default, then and in every such case the Trustee in its discretion may, and upon the written request of the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall and, upon receipt of indemnity reasonably satisfactory to it: (a) by suit, action or special proceeding, enforce all rights of the Owners of the Bonds and require the Board or IBank to perform its duties and enforce its rights under the Act, the CWSRF Act, the DWSRF Act, a Series Indenture, the Pledged Project Obligations and the Master Payment and Pledge Agreement (except for the rights of the Board to Board Reserved Rights and IBank to IBank Reserved Rights); (b) bring suit pursuant to the Bonds in default; (c) by action or suit in equity require the Board to account as if it were the trustee of an express trust for the Owners of the Bonds; (d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; or (e) to the extent permitted by law, transfer all amounts then held and thereafter to be held in Restricted Assets Fund, the Prepayment Fund or the Bond Proceeds Fund to the Trustee to be held for the benefit of the Owners of the Bonds and applied as provided in the Master Trust Indenture.

## **Limitation on Actions by Owners**

No Owner of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any trust under the Master Trust Indenture, or any other remedy thereunder or under the Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as provided in the Master Trust Indenture and unless also the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request of the Trustee so to do, after the right to exercise such powers or rights of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted in the Master Trust Indenture, or to institute such action, suit or proceeding in its or their name; nor unless there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the trusts of the Master Trust Indenture or for any other remedy under the Master Trust Indenture; it being understood and intended that no one or more Owners of the Bonds of any Series secured by the Master Trust Indenture shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Master Trust Indenture, or to enforce any right thereunder or under the Bonds of any Series, except in the manner therein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner therein provided and for the equal benefit of all Owners of Outstanding Bonds. Nothing in the Master Trust Indenture or in the Bonds of any Series contained shall affect or impair the right of action, which is also absolute and unconditional, of any Owner of any Bond to enforce payment of the principal of and premium, if any, and interest on his Bond at the respective dates of maturity of each of the foregoing and at the places therein expressed.

## **Trustee's and Paying Agent's Fees, Charges, Expenses and Indemnification**

The Board shall (1) pay to the Trustee from time to time reasonable compensation for all services rendered by each under the Master Trust Indenture; (2) except as otherwise expressly provided therein, reimburse the Trustee and any Paying Agent upon their respective request for all reasonable expenses, disbursements and advances incurred or made by the Trustee and any Paying Agent in accordance with any provision of the Master Trust Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or

advance as may be attributable to its negligence or willful misconduct; and (3) to indemnify the Trustee and any Paying Agent for, and to hold each of them harmless against, any loss, liability or expense incurred without negligence or willful misconduct on its part, arising directly out of or in connection with acts or omissions by the Board, including the finally sustained costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under the Master Trust Indenture; provided, however, that the obligations of the Board to make such payments and reimbursements and to indemnify the Trustee in such manner shall be limited to any amounts held and available under the Master Trust Indenture or any Series Indenture permitted to be used for such purpose.

### **Trustee's Right to Rely**

The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, fax, request, consent, waiver, certificate, statement, legal opinion, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been authorized or signed by the proper Person or to have been prepared and furnished pursuant to any of the provisions of the Master Trust Indenture, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. Any action taken by the Trustee upon the request or consent of any Person who at the time of making such request or giving such consent is the Owner of any Bond shall be conclusive and binding upon all subsequent Owners of such Bond or any Bond issued on registration of transfer thereof.

### **Resignation by Trustee**

The Trustee may at any time and for any reason resign and be discharged of the trusts created by the Master Trust Indenture by filing a written instrument resigning such trusts and specifying the date when such resignation shall take effect with the Board and IBank not less than ninety (90) days before the date specified in such instrument when such resignation shall take effect, and by giving notice of such resignation to Owners by mail in the manner provided in the Master Trust Indenture not less than twenty-one (21) days prior to the date specified in such notice when such resignation shall take effect; provided however, that no such resignation shall become effective until the acceptance of appointment by a successor Trustee in accordance with the provisions of the Master Trust Indenture described under the caption “Master Trust Indenture – Acceptance of Appointment by, and Transfer of Trust Estate to, Successor Trustee.”

### **Removal of Trustee**

The Trustee at any time and for any reason may be removed from the trusts created by the Master Trust Indenture by an instrument in writing, appointing a successor, filed with the Trustee so removed and executed by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding; provided, however, that no such removal shall become effective until the acceptance of appointment by a successor Trustee in accordance with the provisions of the Master Trust Indenture described under the caption “Master Trust Indenture – Acceptance of Appointment by, and Transfer of Trust Estate to, Successor Trustee” and provided, further, that no such removal shall apply to the State Treasurer in its capacity as Trustee under the Master Trust Indenture.

The Trustee at any time other than during the continuance of an Event of Default and for any reason may be removed from the trusts created by the Master Trust Indenture by a IBank Officer Certificate, appointing a successor, filed with the Trustee so removed; provided, however, that no such removal shall become effective until the acceptance of appointment by a successor Trustee in accordance

with the provisions of the Master Trust Indenture described under the caption “Master Trust Indenture – Acceptance of Appointment by, and Transfer of Trust Estate to, Successor Trustee” and provided, further, that no such removal shall apply to the State Treasurer in its capacity as Trustee under the Master Trust Indenture.

### **Appointment of Successor Trustee by Owners or Bank**

In case at any time the Trustee shall resign, or shall be removed, or be dissolved, or if its property or affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy, or for any other reason, a vacancy shall forthwith and ipso facto exist in the office of the Trustee, then, upon approval by the State Treasurer, a successor may be appointed by either IBank with the approval of the Board or the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, by an instrument or instruments in writing filed with IBank, signed by such Owners or by their attorneys-in-fact duly authorized.

Until a successor Trustee shall be appointed by the Owners as therein authorized, IBank with the approval of the Board, shall appoint a Trustee to fill such vacancy. After any appointment by IBank, it shall cause notice of such appointment to be mailed to each Owner in the manner provided in the Master Trust Indenture. Any new Trustee so appointed by IBank shall immediately and without further act be superseded by a Trustee appointed by the Owners in the manner above provided.

### **Acceptance of Appointment by, and Transfer of Trust Estate to, Successor Trustee**

Any successor Trustee appointed under the Master Trust Indenture shall execute, acknowledge and deliver to IBank an instrument accepting such appointment under the Master Trust Indenture, and thereupon the resignation or removal of the withdrawing Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become duly vested with all the estates, property, rights, powers, trusts, duties and obligations of its predecessor in the trust under the Master Trust Indenture, with like effect as if originally named Trustee in the Master Trust Indenture. Upon request of such Trustee, the Trustee ceasing to act and IBank shall execute and deliver an instrument transferring to such successor Trustee all the estates, property, rights, powers and trusts under the Master Trust Indenture of the Trustee so ceasing to act, and the Trustee so ceasing to act shall pay over to the successor Trustee all moneys and other assets.

### **Liability of the Trustee**

No provision of the Master Trust Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(a) prior to such an Event of Default and after the curing of all such Events of Default which may have occurred:

(1) the duties and obligations of the Trustee shall be determined by the express provisions of the Master Trust Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Master Trust Indenture, and no implied covenants or obligations shall be read into the Master Trust Indenture against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions

expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the requirements of the Master Trust Indenture; but in the case of any such certificate or opinion which by any provision of the Master Trust Indenture is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to read such certificate or opinion to determine if such document states the matters required by the Master Trust Indenture to be stated therein; provided, that the Trustee shall not be liable for any such determinations made in error in the absence of bad faith; and

(b) at all times, regardless of whether or not any such Event of Default shall exist:

(1) the Trustee shall not be liable for any error of judgment made in good faith by an authorized representative of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(2) the Trustee shall 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 in aggregate principal amount of all the 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 Master Trust Indenture.

None of the provisions contained in the Master Trust Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

### **Supplemental Indentures Not Requiring Consent of Owners**

Subject to the conditions and restrictions therein contained, IBank and the Trustee may, with the prior written consent of the Board and without the consent of or notice to the Owners, enter into one or more Supplemental Indentures:

(a) To cure any ambiguity or to correct or supplement any provision contained therein or in any Series Indenture which may be defective or inconsistent with any other provision contained therein or in any Series Indenture, or to make such other provisions in regard to matters or questions arising under the Master Trust Indenture or any Series Indenture as IBank may deem necessary or desirable and which shall not be inconsistent with the provisions of the Master Trust Indenture or any Series Indenture and which shall not impair the security of the same;

(b) To grant to or confer upon the Trustee for the benefit of the Owners of any Series any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Bonds or the Trustee or either of them;

(c) To subject to the provisions of the Master Trust Indenture additional assets, revenues, properties or collateral;

(d) To provide for the issuance of a Series;

(e) To establish one or more additional funds, accounts or subaccounts;

(f) To provide for any change in the Master Trust Indenture which, in the opinion of the Trustee, does not materially adversely affect or diminish the rights or interests of the Trustee or the

Owners, provided that in making such determination the Trustee shall be entitled to rely on an opinion of counsel, in accordance with the provisions of the Master Trust Indenture;

(g) To add to the covenants and agreements of IBank in the Master Trust Indenture contained other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon IBank or to or upon any successor;

(h) To evidence the succession or successive successions of any other department, agency, body or corporation to IBank and the assumption by such successor of the covenants, agreements and obligations of IBank in the Bonds secured by the Master Trust Indenture and in the Master Trust Indenture contained or the succession removal or appointment of any trustee under the Master Trust Indenture;

(i) To modify, eliminate and/or add to the provisions of the Master Trust Indenture to such extent as shall be necessary to effect the qualification of the Master Trust Indenture under the Master Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted, and to add to the Master Trust Indenture such other provisions as may be expressly permitted by said Master Trust Indenture Act of 1939;

(j) To provide for the enforcement, modification, or, subject to the Master Trust Indenture as described under the caption "Master Trust Indenture – Release of Pledged Project Obligations From the Lien of the Master Trust Indenture; Pledge of Additional Pledged Project Obligations," sale or other disposition of any Pledged Project Obligations held or to be pledged to IBank or any investments of moneys of the Board or the Trustee which the Board or the Trustee, respectively, determines is necessary or desirable in the best interests of the Owners;

(k) To comply with any provision of the Code relating to Tax-Exempt Bonds;

(l) To amend the terms thereof in a manner applicable only to Bonds issued subsequent to such amendment and not affecting Bonds previously issued and Outstanding;

(m) To provide for Refunding Bonds, including the right to establish and administer an escrow fund and to take related action in connection therewith;

(n) To make changes or modifications necessary to provide a Credit Facility for a Series, including without limitation the creation, or modification of rights for the Related Credit Provider in accordance with the Master Trust Indenture, provided that such change or modification does not adversely affect the existing ratings on the Bonds from each Rating Agency then rating the Bonds;

(o) To make changes or modifications necessary to provide for the issuance of a Series of Bonds with a State Match Portion not inconsistent with the terms contained in the Master Trust Indenture;

(p) To make changes or modifications useful or necessary to issue subordinated debt from time to time of either the Board or another State agency under the Clean Water Act, the Safe Drinking Water Act or any other similar State or federally supported financing program as approved by the United States Environmental Protection Agency, provided that such change or modification does not adversely affect the existing ratings on the Bonds from each Rating Agency then rating the Bonds

(q) To make changes or modifications useful or necessary to finance programs from time to time of either the Board or another State agency under the Clean Water Act or the Safe Drinking

Water Act, or any other similar state or federally supported financing program as approved by the United States Environmental Protection Agency, provided that such change or modification does not adversely affect the existing ratings on the Bonds from each Rating Agency then rating the Bonds; and

(r) To make any other changes or modifications which do not adversely affect the existing ratings on the Bonds from each Rating Agency then rating the Bonds.

### **Supplemental Indentures Requiring Consent of Owners**

Except as otherwise provided in the provisions of the Master Trust Indenture described under the caption “Master Trust Indenture – Supplemental Indentures Not Requiring Consent of Owners,” any modification or amendment of the Master Trust Indenture may be made only with the consent of the Board and the Owners of more than fifty percent (50%) in aggregate principal amount of the Bonds then Outstanding; provided that, if in the opinion of the Trustee, any such modification or amendment does not materially adversely affect or diminish the rights or interests of the Trustee or the Owners of any Series of Bonds, such Owners of only the Series of Bonds affected by such modification or amendment shall be required to provide the required consent; and provided further, that in making the determination that such modification or amendment does not materially adversely affect or diminish the rights or interest of the Owners of a Series of Bonds, the Trustee shall be entitled to rely on an opinion of counsel. No such modification or amendment shall be made which will reduce the percentages of aggregate principal amount of Bonds, the consent of the Owners of which is required for any such modification or amendment, or permit the creation by IBank of any lien prior to or on a parity with, the lien of the Master Trust Indenture upon the rights and interest pledged to the Bonds under the Master Trust Indenture, or which will affect the times, amounts and currency of payment of the principal (including sinking fund payments, if any) of premium, if any, and interest on the Bonds without the consent of the Owners of all Bonds then Outstanding and affected thereby.

If at any time IBank shall request the consent of Owners to the execution of any such Supplemental Indenture for any of the purposes of the Master Trust Indenture, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Indenture to be given to Owners in the manner provided in the Master Trust Indenture. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection by all Owners. If, within 60 days or such longer period as shall be prescribed by IBank following the giving of such notice, the required consent and approval of Owners is obtained, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain IBank or the Trustee from executing the same or restrain IBank or the Trustee from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Indenture as permitted and provided, the Master Trust Indenture shall be and be deemed to be modified and amended in accordance therewith.

### **Defeasance**

(a) If at any time: (i) there shall have been delivered to the Trustee for cancellation any or all of a Series (other than any Bonds which have been mutilated, lost, stolen or destroyed and which shall have been replaced or paid as provided in the Master Trust Indenture), or (ii) with respect to any or all of a Series not theretofore delivered to the Trustee for cancellation, the whole amount of the principal and the interest and the premium, if any, due and payable or to become due and payable on such Bond or Bonds then Outstanding shall be paid or deemed to be paid as set forth below, and provision shall also be made for paying all other sums payable under the Master Trust Indenture, including IBank's, the Board's, the Trustee's and any Paying Agent's fees and expenses with respect to such Series, then the

Trustee, in such case, on demand of IBank, shall release the lien of the Master Trust Indenture with respect to such Bond or Bonds and turn over to or at the direction of IBank any balances remaining in any fund created under the Master Trust Indenture, other than moneys and Defeasance Obligations retained for the redemption or payment of Bonds; otherwise, the Master Trust Indenture shall be, continue and remain in full force and effect.

(b) Bonds shall be deemed to be paid whenever there shall have been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds) either moneys in an amount which shall be sufficient, or Defeasance Obligations certified by an independent accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without the necessity of further investment or reinvestment of either the principal amount thereof or interest therefrom, provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal, and premium, if any, and interest due and to become due on all such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and if redeemed prior to maturity an irrevocable instruction to mail the redemption notice as provided in the Master Trust Indenture has been given, and the Trustee shall have given notice to the Owners of such Bonds in the manner provided in the provisions of the Master Trust Indenture concerning Notices that a deposit meeting the requirements of this paragraph has been made and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal of, premium, if any, and interest on, such Bonds; provided, however, that neither Defeasance Obligations nor moneys deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any Defeasance Obligations shall be withdrawn, or used for any purpose other than, and shall be held in trust for, the payment of the principal of, premium, if any, and interest on such Bonds.

(c) Any Series Indenture may provide for additional or different defeasance provisions including, but not limited to, such provisions as may be required in connection with a Credit Facility or provisions relating to variable interest rates or optional or mandatory tender provisions.

(d) Notwithstanding any provisions of the Master Trust Indenture, any moneys held by the Trustee in trust for the payment of the principal of or interest on any Bonds and remaining unclaimed for two (2) years after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Master Trust Indenture), if such moneys were so held at such date, or one year after the date of deposit of such moneys if deposited after the date when all of the Bonds became due and payable, shall, upon receipt of a Board Officer Certificate, be repaid to the Board free and clear from the pledge and lien of the Master Trust Indenture, and all liability of the Trustee with respect to such moneys shall thereupon cease.

## **MASTER PAYMENT AND PLEDGE AGREEMENT**

### **Pledge and Assignment**

Under the Master Payment and Pledge Agreement, the Board pledges, assigns and transfers to IBank, in consideration of the receipt of the proceeds of each Series of Bonds in accordance with the provisions of the Master Trust Indenture, (i) all of the Board's right, title and interest in and to the Pledged Project Obligations, including all amounts received from time to time thereon, excluding Board Reserved Rights, and (ii) amounts held in the funds and accounts established under Master Trust Indenture controlled by Board, including without limitation in each Restricted Assets Fund, each the Bond Proceeds Fund and each Prepayment Fund, subject to application in accordance with the provisions described under the caption "Master Trust Indenture – Restricted Assets Funds".

Under the Master Payment and Pledge Agreement, the Board may release Pledged Project Obligations from the lien of the Master Payment and Pledge Agreement so as to become Excluded Pledged Project Obligations and substitute and add Project Obligations to the lien of this Agreement, all to the extent provided in the provisions described under the caption “Master Trust Indenture – Release of Pledged Project Obligations From the Lien of the Master Trust Indenture; Pledge of Additional Pledged Project Obligations”. The Master Pledge and Payment Agreement shall be deemed amended upon providing and filing with the Trustee, IBank and each Rating Agency then rating the Bonds a Board Officer Certificate which provides for a revised Schedule to the Master Payment and Pledge Agreement, in accordance with the provisions described under the caption “Master Trust Indenture – Release of Pledged Project Obligations from the Lien of the Master Trust Indenture; Pledge of Additional Pledged Project Obligations”.

As security for the payment of the Bonds, pursuant to the Master Trust Indenture the IBank has assigned to the Trustee the Pledged Assets for the benefit of the Owners of the Bonds. The IBank hereby directs the Board to make the payments required to be made hereunder directly to the Trustee as more fully set forth in the Master Trust Indenture. The Board hereby agrees to such assignment and agrees to make such payments directly to the Trustee. The payments derived from the Pledged Project Obligations shall be applied and the rights so assigned shall be exercised by the IBank and the Trustee as provided in the Master Trust Indenture.

IBank shall not create a pledge, lien or charge upon the Pledged Assets other than as provided in this Master Trust Indenture; provided that, a pledge, lien or charge subject and subordinate to the pledge and lien created pursuant to the Master Trust Indenture may be created with the prior written consent of the Board.

The Board acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Board the right to receive brokerage confirmations of security transactions as they occur in connection with investments made by the Trustee pursuant to the Master Trust Indenture, the Board specifically waives receipt of such confirmations to the extent permitted by law.

To the extent permitted by law, the Trustee in performing any duties as provided in the Master Trust Indenture and herein shall have the rights and immunities including, but not limited to, exculpations and indemnifications, of the Trustee as set forth in the Master Trust Indenture to the same extent and as fully for all intents and purposes as though such rights and immunities had been set forth in the Master Payment and Pledge Agreement.

### **Payments to Trustee and IBank**

The Board shall pay to the Trustee, as assignee of the IBank, solely from available amounts derived from CWSRF Pledged Assets such amounts as shall be due and payable to the Trustee for amounts payable with respect to a Series of Bonds to fund CWSRF Bond Funded Project Obligations as provided in the provisions described under the captions “Master Trust Agreement – Restricted Assets Funds”, “Master Trust Agreement – Debt Service Funds” and “Master Trust Agreement – Payment Requirements”. The Board shall pay to the Trustee, as assignee of IBank, solely from available amounts derived from DWSRF Pledged Assets such amounts as shall be due and payable to the Trustee for amounts payable with respect to a Series of Bonds to fund DWSRF Bond Funded Project Obligations as provided in the provisions described under the captions “Master Trust Agreement – Restricted Assets Funds”, “Master Trust Agreement – Debt Service Funds” and “Master Trust Agreement – Payment Requirements”. The Board shall pay to the IBank from the respective Administrative Costs amounts due

to IBank for its Bond Expenses when due. The IBank's fees shall be paid in accordance with to the Master Payment and Pledge Agreement.

### **Use of Prepayments**

At such time as the Board receives a Prepayment under any Pledged Project Obligations, it shall deposit such Prepayment into the applicable Prepayment Fund, as provided in the Master Trust Indenture.

### **Financial Statements; Annual Certifications; Additional Information**

The Board covenants and agrees at all times to keep, or cause to be kept, proper books of records and accounts, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions of or in relation to the business, properties and operations of the funding of Project Obligations acquired in whole or in part with the proceeds of the Bonds, and Pledged Project Obligations pledged and assigned to IBank hereunder. Such books of record and account shall be available for inspection by IBank or the Trustee, and the duly authorized agents of either of them, at reasonable hours and under reasonable circumstances.

The Board shall provide to the Trustee and IBank a copy of the annual report prepared in accordance with each Continuing Disclosure Agreement and each Coverage Test schedule prepared in accordance with the Master Trust Indenture. The Trustee shall not be responsible for reviewing such annual reports or schedules.

The Board shall provide to IBank such additional information as may be reasonably requested from time to time by IBank.

### **Tax Covenants**

The Board agrees to comply with each Related Tax Certificate in order that interest on the Tax-Exempt Bonds is and remains tax-exempt. The Board shall take, and shall require each Recipient to take, the actions required for the interest on any Tax-Exempt Bonds to be and remain excluded from gross income of the Related Series of Bond Owners for federal income tax purposes and shall not take, or knowingly permit any Recipient to take, any action that would cause interest on Related Series of Bonds to be included in gross income of the Related Series of Bond Owners thereof for federal income tax purposes or would cause the Related Series of Bonds to be or become "private activity bonds" within the meaning of 141 of the Code. The Board shall comply with all the rebate requirements imposed under 148(f) of the Code that are necessary to preserve the exclusion of interest on any Tax-Exempt Bonds from gross income of the Related Series of Bond Owners thereof for federal income tax purposes, including (as applicable) the requirement to make periodic calculations of the rebate amount as provided in the Related Tax Certificate and the requirement to make all required rebate payments to the United States. The Board shall not make any investment of funds or take, or knowingly permit it or any Recipient to take, any action that would cause any Tax-Exempt Series of Bonds to become "arbitrage bonds" within the meaning of Section 148 of the Code.

### **Enforcement of the Pledged Project Obligations**

The Board agrees to monitor each Recipient's performance under the Pledged Project Obligations and to exercise all rights and remedies under any statute, rule, or agreement to ensure the timely performance by the Recipient and the timely payment of all amounts due under the Pledged Project Obligations. The Board shall promptly notify the IBank and the Trustee if and to the extent that any

payment due on Pledged Project Obligations is either delinquent or less than the full amounts due thereunder. The Board shall diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of, all terms, covenants and conditions of all Pledged Project Obligations. In furtherance of the pledge hereby granted by the Board of the Pledged Project Obligations, the Board agrees to provide access to IBank and the Trustee to the Pledged Project Obligations upon reasonable notice at the office of the Board during normal business hours.

### **Termination of Master Payment and Pledge Agreement**

After (a) payment in full of the principal of, premium, if any, and interest on, the Bonds, or provision for such payment, shall have been made as provided in the Indenture, (b) payment, or provision for payment satisfactory to the Trustee and the IBank, of the fees, charges and expenses of the Trustee and IBank in accordance with the Indenture, and (c) payment, or provision for payment satisfactory to the affected parties, of all other amounts required to be paid under the Master Payment and Pledge Agreement and the Indenture by the Board, the Master Payment and Pledge Agreement and the pledge and assignment of the Pledged Project Obligations contained therein shall terminate.

### **Events of Default**

Each of the following events shall constitute and is referred to in the Master Payment and Pledge Agreement as an “Event of Default”:

(i) the pledge and assignment created by the Master Payment and Pledge Agreement shall at any time and for any reason cease to be or fail to constitute a valid pledge under the Master Payment and Pledge Agreement;

(ii) the Master Payment and Pledge Agreement shall at any time after its execution and delivery and for any reason cease to be in full force and effect, or shall be declared to be null and void;

(iii) a failure by the Board to make any of the payments, to the extent that amounts are available in the Restricted Assets Fund established under the Master Trust Indenture to make such payments when due as required pursuant to the Master Payment and Pledge Agreement; or

(iv) a failure by the Board to observe and perform any covenant, condition, agreement or provision contained in the Master Payment and Pledge Agreement on the part of the Board to be observed or performed, which failure shall continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Board by the Trustee or IBank.

### **Remedies**

Upon the happening and continuance of any Event of Default, IBank and the Trustee, as assignee, may enforce payment or other performance by the Board by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as IBank or the Trustee, respectively, shall deem effectual in support of its rights or duties hereunder, including to direct transfer of all amounts then and thereafter to be held in the Restricted Assets Fund to the Trustee to be held for the benefit of the Owners of the Bonds and applied as provided in this Master Trust Indenture and any Series Indenture. No delay or omission of IBank or the Trustee to exercise any right or power arising from any default or acquiescence therein, and every power and remedy given by this caption may be exercised from time to time and as often as shall be deemed expedient.

## **Agreement to Pay Attorneys' Fees and Expenses**

In the event the Board should default under any of the provisions of the Master Payment and Pledge Agreement, whether or not such default constitutes an Event of Default under the Master Payment and Pledge Agreement, and IBank or the Trustee should employ attorneys, including, in the case of IBank, the State Attorney General's Office and its internal counsel, or incur other expenses for the collection of the payments due under the Master Payment and Pledge Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Board therein contained, the Board agrees to pay to IBank and the Trustee the reasonable fees and expenses of such attorneys and such other reasonable expenses so incurred by IBank or the Trustee.

## **Indemnification**

To the extent permitted by law, the Board releases IBank and the Trustee from, and covenants and agrees that neither IBank nor the Trustee shall be liable for, and covenants and agrees to indemnify and hold harmless IBank and the Trustee and their members, past, present and future directors, officers, employees and agents and each person, if any, who controls (as such term is defined in Section 15 of the Securities Act of 1933, as amended (collectively, the "Indemnified Parties")) from and against any and all judgments, losses, claims, damages, liabilities, joint or several, or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from, or in any way connected with (a) a Pledged Project Obligation, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of, a Pledged Project Obligation or any part thereof; (b) the issuance of the Bonds or any certifications or representations made in connection therewith by the Board and the carrying out of any of the transactions contemplated by the Bonds, the Master Trust Indenture or the Master Payment and Pledge Agreement; (c) the Trustee's acceptance or administration of the trusts under the Master Trust Indenture, or the exercise or performance of any of its powers or duties under the Master Trust Indenture; or (d) any untrue statement or alleged untrue statement of a material fact contained in an Official Statement (except for any information provided by IBank or the underwriters for such Series of Bonds) or that arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading with respect to the information contained therein (except as aforesaid) utilized by any underwriter in connection with the sale or offering of such Series of Bonds; provided that in each case such indemnity shall not be required for damages that result from the willful misconduct or negligence on the part of the party seeking such indemnity; and, provided, further that, the Board shall not be liable to any Indemnified Person in any such case to the extent that any such loss, claim, damage or liability arises out of, or is based upon, any information furnished by such Indemnified Person specifically for inclusion in the Official Statement, subject to the Board's acknowledgement that IBank and its officers, agents or employees have not provided any information for the Official Statement except as aforesaid and none of the State Treasurer, its officers, agents or employees has provided any information for the Official Statement. The Board further covenants and agrees to pay or to reimburse Indemnified Parties for any and all costs, attorneys' fees, liabilities or expenses reasonably incurred in connection with investigating, defending or preparing to defend against or otherwise in connection with investigating, any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the willful misconduct or negligence of the party claiming such payment or reimbursement. The provisions of this caption shall survive the payment and retirement of Bonds, the termination of the Master Payment and Pledge Agreement and the resignation or removal of the Trustee.

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## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated as of \_\_\_\_ 1, 2019 by and between the State Water Resources Control Board (the “Board”) and the Treasurer of the State of California, as dissemination agent hereunder (the “Dissemination Agent”) and as trustee (the “Trustee”) under an Amended and Restated Master Trust Indenture, (the “Master Trust Indenture”), as supplemented by the Series Indenture, each dated as of April 1, 2019 and as may be further supplemented from time to time by series indenture or supplemental indenture in accordance with the Master Trust Indenture (the “Trust Indenture”), is executed and delivered in connection with the issuance of California Infrastructure and Economic Development Bank (the “IBank”) \$\_\_\_\_\_principal amount Clean Water and Drinking Water State Revolving Fund Revenue Bonds Series 2019 (Green Bonds) (the “Bonds”).

#### ARTICLE I Definitions

Section 1.1 Definitions. Terms used and not defined herein shall have the meanings ascribed to such terms in the Trust Indenture. The following terms used in this Agreement shall have the following respective meanings:

(1) “Annual Financial Information” means the (i) financial information or operating data with respect to the SRFs for each fiscal year of the Board, including (a) financial information and operating data concerning the SRFs programs of the type appearing under the caption “CASH FLOW SCHEDULE” to the Official Statement, (b) the number of Recipients under the Pledged Project Obligations, the number and outstanding aggregate principal amount of the Pledged Project Obligations, and whether there has been any change in the identity of the Significant Borrowers with respect to the Series 2019 Bonds and financial information and operating data of the type appearing in the Official Statement in APPENDIX A – “PLEGGED PROJECT OBLIGATIONS,” and (c) with respect to any future Bonds, such financial information and operating data as may be identified in the written certificate of an Authorized Board Officer evidencing the Board’s election that owners of Additional Bonds be entitled to the benefit of this Agreement; (ii) financial information with respect to each Significant Borrower as further described in this Section 1.1(13) hereof; and (iii) the information regarding amendments to this Agreement required pursuant to Sections 4.2(c) and (d) of this Agreement. Annual Financial Information shall also include Audited Financial Statements, if then available, or Unaudited Financial Statements.

The descriptions contained in clauses (i) and (ii) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the State Water Board relating to the SRFs and any Significant Borrower, as the case may be, audited by such auditor as shall then be required or permitted by State law. In the case of the SRFs or any Significant Borrower, Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that the State Water Board or any Significant Borrower may, from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared; provided further, however, that in the case of any Significant Borrower, Audited Financial Statements may be prepared in accordance with such other accounting principles as shall be specified in

the initial filing of Annual Financial Information of such Significant Borrower by the State Water Board or such Significant Borrower or in the initial official statement or other disclosure document of the State Water Board setting forth the financial and operating data of such Significant Borrower. Notice of any such modification shall include a reference to the specific federal or State law or regulation describing such accounting basis and shall be provided by the State Water Board or any Significant Borrower, as applicable, to the MSRB.

(3) “Counsel” means Hawkins Delafield & Wood LLP or any other nationally recognized bond counsel or counsel expert in federal securities laws as they relate to municipal securities selected by the State Water Board.

(4) “Dissemination Agent” means the Trustee acting in such capacity hereunder, or any successor Dissemination Agent designated in writing by the State Water Board and which has filed with the State Water Board a written acceptance of such designation.

(5) “Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii), but does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

(6) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

(7) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Agreement.

(8) “Notice Event” means any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Series 2019 Bonds, or other material events affecting the tax status of the Series 2019 Bonds;
- (vii) modifications to rights of Bondholders, if material;
- (viii) Benefited Bond calls, if material, and tender offers;

- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Series 2019 Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the State Water Board;

Note to clause (xii): For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the State Water Board, in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the State Water Board, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the State Water Board;

- (xiii) the consummation of a merger, consolidation, or acquisition involving the State Water Board, or the sale of all or substantially all of the assets of the State Water Board, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) incurrence of a financial obligation of the State Water Board, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the State Water Board, any of which affect security holders, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation on of the State Water Board, any of which reflect financial difficulties.

(9) “Official Statement” means the “final official statement,” as defined in paragraph (f)(3) of the Rule, relating to a Series of Bonds.

(10) “Pledged Project Obligation” means a loan contract, an installment sales agreement, another financing agreement, or a separate agreement, if any, of a Recipient committing a Recipient to make Installment Payments, Additional Payments or other payments or to provide continuing disclosure relating to certain financial and operating data relating to its affairs which is assigned and pledged as security for the benefit of a Series of Bonds.

(11) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(12) “SEC” means the United States Securities and Exchange Commission.

(13) “SRFs” means CWSRF and DWSRF.

(14) “Significant Borrower” means a Recipient under Pledged Project Obligations that have an aggregate unpaid principal amount equal to or greater than twenty percent (20%) of the aggregate unpaid principal amount of all Pledged Project Obligations.

(15) “Significant Borrower Annual Financial Information” means financial information and operating data of the type necessary, in the opinion of Counsel, to comply with the Rule (whether expressly set forth therein or incorporated by reference therein). Significant Borrower Annual Financial Information shall include Audited Financial Statements of the Significant Borrower, if then available, or Unaudited Financial Statements of the Significant Borrower.

(16) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

## **ARTICLE II** **The Undertaking**

Section 2.1 Purpose. This Agreement shall constitute a written undertaking by the State Water Board for the benefit of the Owners of the Series 2019 Bonds and, to the extent that the State Water Board elects in accordance with the following sentence, other Bonds, and is being executed and delivered solely to assist the underwriters of any Bonds in complying with subsection (b)(5) of the Rule. This Agreement initially benefits only the Owners of the Series 2019 Bonds and, at the option of the State Water Board, shall benefit Owners from time to time of additional Series of Bonds hereafter issued under the Trust Indenture (the “Additional Bonds”) to the extent the Board shall deliver a written certificate of an Authorized Board Officer to the Trustee evidencing the State Water Board’s election that the Owners of such Additional Bonds are to be entitled to the benefit of this Agreement. In such event, these undertakings also shall be for the benefit of the Owners of such Additional Bonds.

Section 2.2. Appointment of Dissemination Agent. The State Water Board hereby appoints the Treasurer of the State of California, as Dissemination Agent under this Agreement.

Section 2.3 Annual Financial Information. (a) The State Water Board shall provide to the Dissemination Agent Annual Financial Information with respect to each fiscal year of the State Water Board and each Significant Borrower, by no later than February 1 of each year (the “Due Date”), with respect to the State Water Board’s prior fiscal year (which fiscal year as of the date hereof ends June 30), commencing with the fiscal year ended June 30, 2019, and to provide notices of the occurrence of certain Notice Events as hereinafter provided; provided, however, that if the State Water Board’s fiscal year ends on a date other than June 30, the Due Date shall be no later than 215 days after the end of such fiscal year. The Dissemination Agent shall disseminate the Annual Financial Information by no later than 230 days after the end of the State Water Board’s fiscal year to the MSRB. The Dissemination Agent shall have no duty or obligation to review such Annual Financial Information. If by the Due Date of each year, the Dissemination Agent has not received a copy of the Annual Financial Information, the Dissemination Agent shall notify the Board and IBank of such failure to receive such information.

(b) The State Water Board shall not be required to undertake any responsibility with respect to any Annual Financial Information required by or provided pursuant to any Pledged Project Obligation, and neither the State Water Board, its directors, officers, nor employees have any responsibility or liability to any person, including any Owner of the Bonds, with respect to any such Annual Financial Information or for the performance or enforcement of any Pledged Project Obligation, except as provided in a Pledged Project Obligation or other undertaking of a Significant Borrower and except as provided in the final sentence of this Section 2.3(b). The State Water Board hereby assigns to the Trustee for the benefit of the Owners of the Bonds all of its right, title and interest in the obligations of the Significant Borrowers set forth in the Pledged Project Obligations to provide Annual Financial Information to the State Water Board or otherwise in connection with the Bonds, subject to a right of the State Water Board to independently enforce such obligations and to a right of the State Water Board to consent to an amendment of such obligations on the same basis and subject to the same conditions applicable to an amendment of this Agreement pursuant to Section 4.2 hereof. The State Water Board covenants to exercise and enforce any and all rights to the full extent permitted by law, and to fully cooperate with the Trustee in so exercising and enforcing any and all of the Trustee's rights as assignee to obtain Annual Financial Information of any Significant Borrower under a Pledged Project Obligation, including without limitation seeking mandate or specific performance by court order to cause any Significant Borrower to provide Annual Financial Information.

(c) The State Water Board shall provide to the Dissemination Agent, in a timely manner, notice of any of its failures to provide the Annual Financial Information by the date specified in subsection (a) above which Dissemination Agent shall then provide notice to the MSRB.

Section 2.4. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 2.3(a) hereof, the State Water Board and any Significant Borrower, as applicable, shall provide to the Dissemination Agent the Audited Financial Statements, when and if available, to the MSRB.

Section 2.5. Notice Events. (a) If a Notice Event occurs, the State Water Board shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to (i) the MSRB, (ii) the Trustee and (iii) IBank.

(b) Any notice of a defeasance of Bonds shall state whether the Series 2019 Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

Section 2.6. Additional Information. Nothing in this Agreement shall be deemed to prevent the State Water Board or any Significant Borrower from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of a Notice Event, in addition to that which is required by this Agreement. If the State Water Board chooses to include any information in any Annual Financial Information or notice of a Notice Event in addition to that which is specifically required by this Agreement, the State Water Board shall have no obligation under this Agreement to update such information or include it in any future Annual Financial Information or notice of a Notice Event.

Section 2.7. Additional Disclosure Obligations. The State Water Board acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the State Water Board and that, under some circumstances, compliance with this Agreement without

additional disclosures or other action may not fully discharge all duties and obligations of the State Water Board under such laws.

Section 2.8. No Previous Noncompliance. The State Water Board represents that in the previous five years it has not failed to comply in all material respects with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

### **ARTICLE III** **Operating Rules**

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Sections 2.2 and 2.5 hereof if the State Water Board provides Annual Financial Information or Significant Borrower Annual Financial Information by specific reference to documents (i) available to the public on the MSRB Internet Web site (currently, [www.emma.msrb.org](http://www.emma.msrb.org)) or (ii) filed with the SEC. The State Water Board shall clearly identify each other such document so included by reference. The provisions of this Section shall not apply to notices of Notice Events pursuant to Section 2.5 hereof.

Section 3.2. Submission of Information. Annual Financial Information and Significant Borrower Annual Financial Information may each be provided in one document or multiple documents, and at one time or in part from time to time, and may be provided by delivery of an official statement which includes such information.

Section 3.3. Notice Events. Each notice of Notice Event shall be so captioned and shall prominently state the title, date and Series of the Bonds.

Section 3.4. Transmission of Information and Notices. (a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is [www.emma.msrb.org](http://www.emma.msrb.org).

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 3.5. Annual Financial Information. Annual Financial Information is to be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

### **ARTICLE IV** **Termination, Amendment and Enforcement**

Section 4.1 Termination. (a) The State Water Board's, the Dissemination Agent's and the Trustee's obligations under this Agreement shall terminate upon a legal defeasance pursuant to Article XII of the Master Trust Indenture, prior redemption or payment in full of all of the Bonds.

(b) This Agreement, or any provision hereof, shall be null and void in the event that the State Water Board (1) delivers to the Trustee and IBank an opinion from Counsel, addressed to the Trustee and the Dissemination Agent, to the effect that those portions of the Rule which require the provisions of this Agreement, or any of such provisions, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to the Dissemination Agent for delivery the MSRB within ten (10) business days from the execution thereof.

Section 4.2. Amendment. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the Owners of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the State Water Board or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the State Water Board shall have delivered to the Trustee and IBank an opinion from Counsel, addressed to the State Water Board and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the State Water Board shall have delivered to the Trustee and IBank an opinion from Counsel addressed to the State Water Board and the Trustee, to the effect that the amendment does not materially impair the interests of the Owners of the Bonds, or the Trustee shall have independently determined that the amendment does not materially impair such interests, or (ii) the Owners of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Trust Indenture with consent of Owners of Bonds pursuant to Section 11.02 of the Trust Indenture as in effect on the date of this Agreement, and (5) the State Water Board shall have delivered copies of any such opinion(s) and amendment, as applicable, to the Dissemination Agent for delivery to the MSRB within ten (10) business days from the execution thereof.

(b) In addition to subsection (a) above, this Agreement may be amended and any provision of this Agreement may be waived, by written agreement of the parties, without the consent of the Owners of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the State Water Board shall have delivered to the Trustee and IBank an opinion from Counsel, addressed to the State Water Board, the Dissemination Agent and the Trustee, to the effect that performance by the State Water Board and the Trustee under this Agreement as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule, and (3) the State Water Board shall have delivered copies of such opinion and amendment to the Dissemination Agent for delivery to the MSRB within ten (10) business days from the execution thereof.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter by the State Water Board shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of such change shall be provided by the State Water Board to the Dissemination Agent for delivery to the MSRB.

Section 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Agreement shall inure solely to the benefit of the Owners from time to time of the Bonds, except that, if the Bonds are book-entry-only Bonds within the meaning of Section 2.06 of the Master Trust Indenture, beneficial owners of Bonds as shown on the records of the Securities Depository or its participants shall be third-party beneficiaries of this Agreement.

(b) Except as provided in this subsection (b), the provisions of this Agreement shall create no rights in any person or entity. The obligation of the State Water Board to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any Owner of Outstanding Bonds, or by the Trustee on behalf of the Owners of Outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the Owners of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. Neither the State Water Board, its directors, officers nor employees shall have any liability hereunder for any act or failure to act hereunder; the Owners' and Trustee's sole remedy with respect to enforcement of the provisions of this Agreement shall be a right, by action in mandamus or for specific performance, to compel performance of the State Water Board's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be Owners of Bonds for purposes of this subsection (b).

(c) Any failure by the State Water Board to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Trust Indenture, and the rights and remedies provided by the Trust Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State of California, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the County of Sacramento, State of California; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

## **ARTICLE V** **Miscellaneous**

Section 5.1. Duties, Immunities and Liabilities of Dissemination Agent and Trustee. Article X of the Master Trust Indenture is hereby made applicable to this Agreement as if this Agreement were (solely for this purpose) contained in the Master Trust Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee under the Master Trust Indenture. Without limiting the generality of the foregoing, the Trustee and the Dissemination Agent shall have only those duties hereunder which are specifically set forth in this Agreement whether or not a default has occurred hereunder. The State Water Board agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, shall be held harmless against any loss, expense or liability which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's gross negligence or willful misconduct in the performance of its duties hereunder, to the same extent and from the same sources as shall be available to the Dissemination Agent or the Trustee and such persons in connection with actions taken under the Trust Indenture. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The obligation of the State Water Board under this Section shall survive the termination of this Agreement, the payment of the Bonds and the resignation or removal of the Dissemination Agent or Trustee.

The Dissemination Agent or the Trustee shall have no liability, duty or obligation under this Agreement for, with respect to or arising out of: (i) the selection of Counsel or the determination whether such counsel is a recognized expert in federal securities law; (ii) the adequacy, completeness or sufficiency, for any purpose, of the Annual Financial Information; (iii) the determination of whether a Material Event has occurred or communicating to any party or persons whether a Material Event has occurred; and (iv) the providing of Annual Financial Information to any party or persons.

Section 5.2. Compensation of Dissemination Agent. The Dissemination Agent shall be paid reasonable compensation for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all reasonable expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent, IBank and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the State Water Board, the Owners or any other party.

Section 5.3. Removal, Replacement or Resignation of Dissemination Agent. The State Water Board may from time to time, appoint or engage a Dissemination Agent other than the original Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days written notice to the State Water Board, IBank and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared hereunder. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for the failure to file any report on a timely basis where the failure to meet any deadline is caused by the failure of the State Water Board to provide information to the Dissemination Agent on a timely basis.

Section 5.4. Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, all as of the date first above written.

STATE WATER RESOURCES CONTROL BOARD

By: \_\_\_\_\_

TREASURER OF THE STATE OF CALIFORNIA,  
as Dissemination Agent and as Trustee

By: \_\_\_\_\_

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**APPENDIX F**  
**FORM OF OPINION OF BOND COUNSEL**

*Upon delivery of the Series 2019 Bonds, Hawkins Delafield & Wood LLP proposes to deliver its approving opinion in substantially the following form:*

California Infrastructure and Economic  
Development Bank  
Sacramento, CA 95814

Re: California Infrastructure and Economic Development Bank  
Clean Water and Drinking Water State Revolving  
Fund Revenue Bonds Series 2019 (Green Bonds)

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$[Principal Amount] in aggregate principal amount of the California Infrastructure and Economic Development Bank Clean Water and Drinking Water State Revolving Fund Revenue Bonds Series 2019 (Green Bonds) (the “Series 2019 Bonds”). The Series 2019 Bonds are issued under the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division 1 of Title 6.7 of the California Government Code (commencing at Section 63000 thereof) (the “Act”), and pursuant to an Amended and Restated Master Trust Indenture, dated as of April 1, 2019, by and between the California Infrastructure and Economic Development Bank (the “IBank”) and the Treasurer of the State of California, as Trustee (the “Trustee”) (the “Master Trust Indenture”) and a Series 2019 Indenture, dated as of April 1, 2019, by and between IBank and the Trustee (the “Series Indenture” and, together with the Master Trust Indenture, the “Indenture”). The payment of principal, premium, if any, and interest on the Series 2019 Bonds are secured by payments made under the Amended and Restated Master Payment and Pledge Agreement, dated as of April 1, 2019, by and between the State Water Resources Control Board (the “State Water Board”) and IBank (the “Master Payment and Pledge Agreement”). All terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture.

The Series 2019 Bonds are dated, mature on the dates in the principal amounts and bear interest, all as provided in the Indenture.

On the basis of the foregoing examination, we are of the opinion that:

- (i) IBank is a public instrumentality and political subdivision of the State of California, duly organized and validly existing pursuant to the Act.
- (ii) The Indenture has been duly authorized, executed and delivered by, and constitutes the valid and binding agreement of, the parties thereto.
- (iii) The Master Payment and Pledge Agreement has been duly authorized, executed and delivered by IBank, is a valid and binding agreement of IBank and, assuming due authorization, execution and delivery by the State Water Board, is enforceable against IBank in accordance with its terms.

(iv) The Series 2019 Bonds are valid and legally binding obligations of IBank, secured by the Indenture to the extent provided therein, and are payable as to principal, premium, if any, and interest on a parity with all Bonds heretofore or hereafter issued under the Indenture from, and are secured equally and ratably with said Bonds by a valid lien on and pledge of, the Pledged Project Obligations and the payments by the Recipients of amounts due on the Pledged Project Obligations (except for State Water Board Reserved Rights and IBank Reserved Rights, as provided in the Master Payment and Pledge Agreement) pursuant to the Master Payment and Pledge Agreement and other moneys controlled by the Trustee under the Indenture and pledged and available therefor under the terms of the Indenture, all in the manner provided in the Indenture. The Series 2019 Bonds are enforceable in accordance with their terms and the terms of the Indenture and are entitled to the benefits of the Act and the Indenture. All conditions precedent to the delivery of the Series 2019 Bonds have been fulfilled.

(v) Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Series 2019 Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the Series 2019 Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code.

(vi) Under existing statutes, interest on the Series 2019 Bonds is exempt from personal income taxes imposed by the State of California.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Series 2019 Bonds in order that, for federal income tax purposes, interest on the Series 2019 Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the Series 2019 Bonds, restrictions on the investment of proceeds of the Series 2019 Bonds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest on the Series 2019 Bonds to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Series 2019 Bonds, IBank and the State Water Board will execute a Tax Certificate (the “Tax Certificate”) containing provisions and procedures pursuant to which such requirements can be satisfied. In the Tax Certificate, IBank and the State Water Board covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Series 2019 Bonds will, for the purpose of federal income taxation, be excluded from gross income.

In rendering the opinion in paragraph (v) hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the Series 2019 Bonds, and (ii) compliance by IBank, the State Water Board and the Recipients with the procedures and covenants set forth in the Tax Certificate and other documents as to such tax matters.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Series 2019 Bonds or the ownership or disposition thereof, except as stated in paragraphs (v) and (vi) above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or

interpretation thereof that may hereafter occur or for any other reason. We express no opinion as to the consequence of any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Series 2019 Bonds.

The foregoing opinions are qualified to the extent that the enforceability of the Master Trust Indenture, and the Master Payment and Pledge Agreement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law).

Very truly yours,

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## **APPENDIX G BOOK-ENTRY-ONLY SYSTEM**

**THE INFORMATION IN THIS APPENDIX G CONCERNING DTC (DEFINED HEREIN) AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE INFRASTRUCTURE BANK AND THE STATE WATER BOARD BELIEVE TO BE RELIABLE, BUT NEITHER THE INFRASTRUCTURE BANK NOR THE STATE WATER BOARD TAKES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS THEREOF. THERE CAN BE NO ASSURANCE THAT DTC WILL ABIDE BY ITS PROCEDURES OR THAT SUCH PROCEDURES WILL NOT BE CHANGED FROM TIME TO TIME.**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2019 Bonds. The Series 2019 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 Series 2019 Bond certificate will be issued for each maturity of the Series 2019 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 S&P Global Ratings 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](http://www.dtcc.com).

Purchases of Series 2019 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2019 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2019 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2019 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 Series 2019 Bonds, except in the event that use of the book-entry system for the Series 2019 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2019 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 Series 2019 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2019 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2019 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 Series 2019 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2019 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2019 Bond documents. For example, Beneficial Owners of Series 2019 Bonds may wish to ascertain that the nominee holding the Series 2019 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2019 Bonds of a single maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2019 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to IBank 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 Series 2019 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest and redemption proceeds on the Series 2019 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 IBank or the trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or IBank or the State Water Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal of and interest and redemption proceeds on each Series 2019 Bond to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2019 Bonds at any time by giving reasonable notice to IBank or the trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2019 Bond certificates are required to be printed and delivered. IBank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2019 Bond certificates will be printed and delivered. To DTC and the requirements of the Indenture with respect to certificated Series 2019 Bonds will apply.

IBANK AND THE UNDERWRITER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SECURITIES (I) PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE SERIES 2019 BONDS (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SECURITIES OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SECURITIES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER IBANK NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OR COMPLETENESS OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SECURITIES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SECURITIES.

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**APPENDIX H**  
**LETTERS SUBMITTED BY UNDERWRITERS**



**Backstrom McCarley Berry & Co., LLC**

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April 3, 2019  
Mr. Blake Fowler  
Deputy State Treasurer  
Office of the Treasure of the State of California  
915 Capitol Mall, Room 110  
Sacramento, California 95814

RE: Distribution Agreement for the: California Infrastructure and Economic Development Bank  
State Revolving Fund Bonds Series 2019 (Green Bonds)

Dear Mr. Fowler:

Backstrom McCarley Berry & Co., LLC ("BMcB"), one of the Co-Senior Managers on the California I-Bank, Series 2019 Green Bonds and has entered into a Broker/Dealer Agreement with 280 Securities to augment both our institutional and retail marketing capabilities, for the distribution of certain securities offerings, including the California I-Bank, Series 2019 Green Bonds at the original issue price. Pursuant to our distribution agreement, 280 Securities may purchase bonds from BMcB at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

We very much appreciate the opportunity to serve the California State Treasurer's Office and the I-Bank on this transaction. We would be happy to discuss these agreements with you should you should have any questions.

Backstrom McCarley Berry & Co., LLC

A handwritten signature in black ink that reads "Don Backstrom". The signature is written in a cursive style with a large initial 'D'.

Managing Director & Principal

Cc: Nancee Trombley  
Leonard Berry  
Arto Becker



A Service Disabled Veteran Business Enterprise  
MEMBERS FINRA, MSRB & SIPC



1111 Bayside Drive, Suite 100, Corona del Mar, CA 92625 | Tel: (949) 720-0640 | Email: [dholmes@mischlerfinancial.com](mailto:dholmes@mischlerfinancial.com)

April 4, 2019

Mr. Blake Fowler  
Director  
Public Finance Division  
Office of the Treasurer of the State of California  
915 Capitol Mall, Room 261  
Sacramento, CA 95814

Re: California Infrastructure and Economic Development Bank (IBank)  
Clean Water and Drinking Water State Revolving Fund Revenue Bonds  
Series 2019 (Green Bonds)

Dear Mr. Fowler:

Mischler Financial Group, Inc. ("Mischler"), one of the underwriters of the above referenced bonds (the "Bonds"), has entered into separate distribution agreements (each a "Distribution Agreement") with IFS Securities, Inc. ("IFS") and TD Ameritrade ("TDA") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement, IFS and TDA may purchase Bonds from Mischler at the original issue prices less a negotiated portion of the takedown applicable to any Bonds such firm sells.

Sincerely,

Mischler Financial Group, Inc.

Cc: Nancee Robles, IBank

Main Trading Desk Tel: 800.993.3553 | 949.720.0640 | FAX: 949.720.0229

Capital Markets Desk Tel: 203.276.6646

Corporate Headquarters: 1111 Bayside Drive | Corona del Mar, California 92625

[www.mischlerfinancial.com](http://www.mischlerfinancial.com)

Corona del Mar, CA | Stamford, CT | Honolulu, HI | Chicago, IL | Boston, MA | Detroit, MI | Las Vegas, NV | Red Bank, NJ | New York, NY | Dallas, TX | Seattle, WA



April 8, 2019

Blake Fowler, Director  
Public Finance Division  
California State Treasurer's Office  
915 Capitol Mall, Room 110  
Sacramento, CA 95814

RE: California Infrastructure and Economic Development Bank Drinking Water SRF  
Revenue Bonds Series 2019 (Green Bonds)

Dear Mr. Fowler:

George K. Baum & Company ("GKB") is providing the following language for inclusion in the Offering Statement of the above-referenced transaction:

George K. Baum & Company, the Bank of New York Mellon Corporation, and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, have a distribution agreement enabling the Bank of New York Mellon Corporation to obtain and distribute certain municipal securities underwritten by or allocated to George K. Baum & Company, including through sales to Pershing LLC. Under the distribution agreement, George K. Baum & Company will allocate a portion of received takedowns, fees or commissions to the Bank of New York Mellon Corporation for bonds sold under the agreement.

George K. Baum & Company

Samuel L. Smalls, Senior Vice President

cc: Julie Giordano, CA STO  
Geoff Palmertree, CA STO  
Gary Watkins, CA STO  
Tim Aguirre, CA STO  
Adriana Ring, CA STO

# Morgan Stanley

April 10, 2019

Mr. Blake Fowler  
Director, Public Finance Division  
Office of the Treasurer of the State of California  
915 Capitol Mall, Room 261  
Sacramento, CA 95814

RE: California Infrastructure and Economic Development Bank, Clean Water and Drinking Water State Revolving Fund Revenue Bonds, Series 2019 (Green Bonds)

Dear Mr. Fowler:

Morgan Stanley & Co. LLC is providing the following language for inclusion in the Official Statement:

Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this 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 Bonds.

Morgan Stanley & Co. LLC

cc: Nancee Trombley, Chief Deputy Executive Director  
California Infrastructure and Economic Development Bank

## APPENDIX I

### SERIES 2019 (GREEN BONDS) PROJECT DESCRIPTIONS

Project Number	Party	DWSRF Financing Amount <sup>1</sup>	Project Description	Anticipated Amount to be Reimbursed from Series 2019 Bonds	Anticipated Future Disbursements from Series 2019 Bonds	Anticipated Percentage of Series 2019 Bonds Disbursed at Closing	Construction Completion Date
1010007-028C	City of Fresno	\$195,489,000	In order to decrease reliance on groundwater, address declining groundwater levels, and create a more sustainable water supply, the City is constructing the Southeast Surface Water Treatment Facility. The new facility is an 80 million gallon per day surface water treatment facility that includes conventional pre-treatment using plate settlers, intermediate ozone treatment, and filtration. In addition, the City is constructing two cast-in-place treated water reservoirs, a pump station, lagoons for handling residuals, an operations building, and a chemical building.	\$1,514,823	\$524,911	74%	1/1/2019
1010007-030C	City of Fresno	\$75,900,000	The project includes approximately 13 miles of 16-inch to 66-inch diameter pipelines, designated as Regional Transmission Mains, to convey potable water from the new Southeast Surface Water Treatment Facility to the City's transmission and distribution system.	\$622,775	\$796,747	44%	1/30/2019
1010007-031C	City of Fresno	\$65,875,669	The City will construct a new check structure and diversion along the Fresno No. 3 Canal and a 13-mile 72-inch raw water pipeline to bring water to the Southeast Surface Water Treatment Facility.	\$2,241,340	\$1,091,359	67%	9/1/2018
1910067-048C	Los Angeles, City of Acting by and through the Department of Water & Power	\$158,190,000	To comply with the Long Term 2 Enhanced Surface Water Treatment Rule, the City will remove the uncovered Silver Lake and Ivanhoe Reservoirs from service. The City will construct the new 54 million gallon, buried concrete Headworks West Reservoir to replace the lost capacity.	\$75,000,000	\$513,830	99%	8/31/2021
1910067-049C	Los Angeles, City of Acting by and through the Department of Water & Power	\$102,797,875	The Department of Water and Power will construct a 650 million gallon per day ultraviolet disinfection facility to treat water from the Los Angeles Reservoir. This will allow the Department to comply with the Long Term 2 Enhanced Surface Water Treatment Rule, which requires public water systems to either cover or treat water stored in open reservoirs. The Department chose treatment due to the size of the Reservoir.	\$8,464,495	\$381,418	96%	2/28/2020

<sup>1</sup> The DWSRF financing amount includes anticipated Series 2019 Bond proceeds as well as other DWSRF funding sources.

Project Number	Party	DWSRF Financing Amount <sup>1</sup>	Project Description	Anticipated Amount to be Reimbursed from Series 2019 Bonds	Anticipated Future Disbursements from Series 2019 Bonds	Anticipated Percentage of Series 2019 Bonds Disbursed at Closing	Construction Completion Date
1910154-001C	City of South Pasadena	\$10,803,550	Given the age of the Graves Reservoir, the City will construct a new reservoir, pump station, related appurtenances, and a wellhead treatment system.	\$679,462	\$146,670	82%	4/30/2020
3710020-074C	City of San Diego	\$15,000,044	This project will replace the Montezuma pump station. The new station will have six pumps with a total capacity of 18 MGD. The project also includes 7,000 feet of new, larger pipeline to replace an existing pipelines to reduce head loss, increase transmission capacity, and meet pressure criteria.	\$4,755,589	\$131,558	97%	5/1/2020
3410020-034C	City of Sacramento	\$173,141,875	The City will receive financing to install approximately 36,000 of its approximately 40,000 water meters on existing residential and commercial water service connections. Other funding sources will be used for the remaining 4,000 meters.	\$499,096	\$2,635,927	16%	1/1/2021
<b>Total Grand Total</b>				<b>\$93,777,580</b>	<b>\$6,222,420</b>		
				<b>\$100,000,000</b>			

<sup>(1)</sup> The DWSRF financing amount includes anticipated Series 2019 Bond proceeds as well as other DWSRF funding sources.