

CA Save Our Streams Council

January 29, 2014

Carl Torgersen
Deputy Director of the State Water Project
California Department of Water Resources Contract Extension
1416 9th Street, Room 1640-H4
Sacramento, CA 95814

Via email: watercontractextension@water.ca.gov

Subject: State Water Project Water Supply Contract Extension Project—Project scope & financial risk to retail ratepayers and taxpayers needs to be disclosed, expansion of scope needs to be clearly prohibited, contracts in default should return water to the public and the urban preference reinstated.

Dear Mr. Torgersen:

The undersigned respectfully submit the following comments regarding the SWP water supply contract extension negotiation project.

As you reported at the last negotiation session, failure to be transparent “makes the hair on the back of State DWR Director Cowin’s neck stand up.” This alarm expressed by Director Cowin is shared by ratepayers and taxpayers who will be the ones on the hook for the unspecified scope of allowable costs, unspecified legislative changes, and the increased risk to bondholders and the public from excessive debt needed to fund this blank check of unspecified costs. We have carefully monitored the negotiations and herein argue for both improved transparency AND improved protection of public interests.

A. Ratepayer and Taxpayers Threatened by Unspecified SWP Capital Costs.

The retail SWP customer—ratepayers and taxpayers—are on the hook to pay sufficient revenues to the Contractors to fund the operations, maintenance, replacement reserve, and emergency costs of the State Water Project. If one contractor cannot pay under contract provisions, the remaining contractors must pick up that financial burden, even if it means increasing both property taxes and water rates. As mentioned in previous comments, the original cost promise of \$1.75 Billion has more than quadrupled under the present 75—year contracts, which are set to expire around 2035 for most contractors.

B. Scope of Allowable Capital Costs must be clearly defined: If the Peripheral Tunnels (BDCP-DHCCP) are excluded, as has been claimed during negotiations, then the contract should clearly prohibit such financing under the Water Supply Contract Extension.

It remains unclear what will be financed under the water supply contract renewals for another 40 to 75 years. Mr. Torgersen and Metropolitan Water District chief negotiator, Deven Upadhyay, have said the financing of the peripheral tunnels—the Bay Delta Conservation Plan (BDCP) and Delta Habitat Conservation and Conveyance Program (DHCCP)—are “not part of this negotiation.”¹ To back up these public statements, any extension of the water supply contracts should clearly state that any new Delta conveyance or Peripheral Tunnels planning, construction, and associated mitigation costs are not allowable charges under the contract extension. This water supply contract extension needs to be transparent on this and other potential expansions of scope—and should not hide financing of the Peripheral Tunnels or any other new conveyance project in the Delta Estuary. A clear cut statement is needed that the various new funding pots, supplemental billings, emergencies, expenditures, and the “new” chartered financing committee (led by DWR and Contractors) is not intended to fund, without public review, expensive new capital projects or any planning for such projects. As we have stated before, the public has a right to know what their ratepayer charges and property taxes will fund.² They took on debt and paid increased property taxes believing the project would be paid for by 2035. Now, some 65 years later, we are told more debt must be issued that they need to spread out payments for another 75 years.

C. As a “Package” Deal, all Elements of the Package Needs to be disclosed for Public Comment and Review Pursuant the Monterey Settlement Agreement.

At the last negotiation session, final touches on the charter for the Finance Policy Committee were set for review by department and water contractor lawyers. Ratepayers and California State Legislative representatives are absent from this high level “finance policy” committee, which has uniquely influential “direct” access to the DWR Director to ‘assist’ in financial decision making with regard to funding for the SWP.

Negotiations have clearly stated that the term of the contract extension, the formation of various funding pots—supplemental billings, cash reserves and ‘emergency’ funding—and this new Finance

Committee are a “package deal.” The claim is that this “Finance Policy Committee” can be formed by charter and implemented outside of the contract extension approval process.³ By definition, however, it is part of the State and inseparable from the contractors’ actions and the water supply contract extension. Thus, there is a need for full environmental and fiscal review by the public through disclosure in CEQA documents prior to implementation and approvals of such a major State and water contractor action.

MWD’s chief negotiator, at the last negotiation session, referenced the need for some legislative changes that would be outside of the contract extension negotiations. Any such contemplated changes need to be disclosed for public review and comment. The State Water Project, pursuant to the Burns Porter Act, authorized \$1.75 billion in general obligation bonds to fund capital costs of the State Water Project.⁴ *“An additional \$510 million for Project construction came from the California Water Fund which was created using Tidelands Oil revenues. Since the Tidelands funds were an interest free loan, taxpayers have had to make up for the money that the state declined to charge in interest.”*⁵ Pursuant to the State of California Central Valley Project Act, additional capital costs of some \$7 billion have been funded with the issuance of revenue bonds.⁶ One of the main rationales given for this contract extension beyond the existing repayment term is that the Department of Water Resources cannot sell revenue bonds whose maturity dates extend past the contract end date of 2035—and that all project costs have a revenue source including recreation costs and mitigation costs. Thus, the proposed strategy contends that issuing more debt to finance the necessary capital expenditures would be more affordable if bonds with longer terms could be sold. But, there is no specific plan provided of the amounts of money needed and “necessary” capital expenditures. Ratepayers, taxpayers and the public at large, all of whom thought the debt already issued would fund the capital expenditures and be paid off in 2035, have a right to know why more debt is needed, how much is needed, when it will be needed, and for what it will be spent.

Federal and state water contractors are also seeking additional SWP financing authority to fund the \$51 to \$67 billion peripheral tunnels delta conveyance that proposes to divert water directly from the Sacramento River by passing the Delta Estuary.⁷ Water Code §85089 requires the beneficiaries to enter contracts to pay these costs.⁸ Under current law authorizing the State Water Project, there is no clear DWR authority to accept and spend state and federal contractor moneys for pre-construction activities and, in the case of state water contractors, collect revenues and repay debt service on the statement of charges.⁹ Perhaps this is the change referenced in the negotiations. The public has no way of knowing because, thus far, there has been only passing reference without disclosure. Any such “package deal” of anticipated legislative or contract changes to allow such activities should be publicly disclosed.

D. Increased Risks to Ratepayers, Taxpayers and Bondholders Need Greater Transparency.

1. Debt Reserves Reduced By 50% & Riskier Investments Authorized.

The lower reserve requirement and reliance on reserve investments outside of cash can be viewed as risky or a *negative* credit event for the bond holders. The counterclaim contends that relying on MWD's property taxpayers and ratepayers is sufficient to avoid this risk and provides an opportunity to return more cash to the contractors and to 'reimburse' costs needed to fund the planning and engineering costs of the new water tunnels under the delta conveyance strategy.¹⁰ These would be exceptional and unreasonable burdens on MWD ratepayers, and is highly unlikely to be simple to implement. The reduced reserve cash is substantial and most likely being used to pay off contractors and other expenses, but the amounts are not disclosed in one location. This concentrated reliance on MWD ratepayers and taxpayers is also a risk to other smaller or less 'wealthy' SWP contractors, who may lose their water in the process. Contractors who have paid into the project for years may not be able to afford these massive increased costs. Requests for an "opt out" option have thus far been ignored.¹¹

2. Any Payment Defaults Require the Rest of the SWP Contractors to Step Up and Pay More, Therefore Increasing Costs to Retail Customers.

In 2000, DWR and the SWC started a process to reduce the maximum annual debt service (MADS) level by 50% and authorize riskier investments for reserve funds.¹² This below average reserve is brushed aside by those who proposed it and benefit, but over the next 75 years, given climate changes, droughts and increased energy pumping costs, ratepayers and taxpayers in Southern California (who now provide the bulk of the SWP revenue that services the debt), could balk at ever increasing water rate and property tax rates.¹³ Some MWD customers, such as San Diego Water Authority, have filed suit over the rate increases and property tax charges.¹⁴ Additionally, default provisions in the existing water contracts require the other SWP contractors to pick up these defaulting contractors and to pay regardless of whether they receive water.¹⁵ And, in the event of a contractor's operating revenues being less than required to make its fixed contract payment, the contractor has an obligation to levy a property tax assessment in an amount to make up the shortfall (this supplemental levy falls outside of the Proposition 13's 1% property tax limit).

3. The Risk of Partnering with Federal Contractors Needs to Be Disclosed.

Westlands Water District (WWD) is likely to issue debt to pay up to 90% of the federal half-share of the DHCCP-BDCP additional planning costs of \$1.2 billion due this year. State Water Project contractors need to raise the other \$600 million.¹⁶ Retail irrigators, like Mark Borba of WWD, recently rang the alarm bell because of rising costs of water and the fear of losing his land. Mark Borba stated, "*With regard to the \$1.2 billion, and I guess our share is just about half—that's roughly \$1,100 an acre debt on every acre in the Westlands Water District just to prepare the documents, get the engineering done, and we haven't turned a teaspoon of dirt... If the District goes broke, will the bondholders not come back [and go after the Westlands landowners]?*"¹⁷ In reply, Westlands' General Manager Tom

Birmingham reassured Borba that Westlands landowners are not at risk. Birmingham, reported WWD would just declare bankruptcy in the event of the inability to meet its debt obligations:

*“The security on the bonds is the [Westlands] District’s revenue, not the landowner’s land. In a worst case, we file for bankruptcy. That’s what the District could do. The landowners’ land is not security.”*¹⁸

In 2009, at the time WWD became the obligator for the federal share of debt for the Delta Conveyance facility planning and engineering costs, bond rating agencies, based on WWD documents, assured bondholders that it could sell water to Southern California or the Bay Area, even though the water rights are held by the federal taxpayers and WWD does not have long term contracts for the water.¹⁹ Note that the United States holds the water right, that this water is supplemental and available only when there is water that is surplus to other higher priority water right holders. This raises a fundamental question for state contractors and their retail customers—will the new contract being negotiated require them to pay the costs of any as yet undisclosed additional SWP capital facilities if a federal contracting partner defaults? Again, if the SWP contract extension does not anticipate how the costs of new capital facilities will be charged under the proposed contract extension, then a strict prohibition against such charges needs to be included. A clear-cut statement is needed to protect retail customers, ratepayers and taxpayers from potential “liar loans” based on paper water.

4. Water from Any Defaulting Contractor Should Be Used to Reduce “Paper Water” Promises.

As stated under existing state water supply contracts, any default requires the other contractors who have not defaulted to pay the bills; the allocation of water supplies is then adjusted among the remaining contractors. It is likely that only the large irrigators under federal water contracts or mammoth urban contractors under the state contracts are favored under such a reallocation. It is likely that small retailers will be priced out of the market. Most important, however, nothing is done to reduce the unrealistically large quantity of “Paper Water”—it’s just reallocated! Instead, since the public has paid a substantial portion of the State Water Project (about \$2 billion), any failure to pay should be viewed as an opportunity to reduce the paper water promises and dedicate this “freed-up” water to public trust values. Rather than allow a contractor to remarket and sell these precious, over-allocated water supplies, the inflated yield of the project needs to be reduced.

E. In Times of Drought and Shortages the Urban Preference—Drinking Water Over Irrigation—Needs to be Reinstated.

The present drought reminds us that the urban ratepayer who has paid a disproportionate amount of the costs for the SWP needs the reliability that, during times of shortage, drinking water will

receive priority over irrigation of crops. Many have criticized the export of so much water for supplemental irrigators. University of California Professor Emeritus, Dr. Richard Walker recently remarked, *"I have a better solution. Instead of building the Delta Drains, use the money to buy out Westlands, about \$9 billion at current land prices. This would be cheaper and have the added benefit of saving 1 million acre-feet a year (average) now going to Westlands, leaving that water for other farmers and urban users."*²⁰ It bears repeating for decades, urban ratepayers invested millions of dollars to ensure an urban preference during times of shortages.²¹ Others note that drinking water, domestic supplies and irreplaceable public trust values threatened with extinction should have priority over irrigators. *"I understand that almonds garner high prices worldwide and are profitable for Californian farmers. But maybe in an extreme drought, the governor could decide that he wants to spend our limited water on preserving our native species, and not providing Chinese people with pleasant snacks."*²²

The urban preference was an insurance policy whereby these municipal water users would receive water on a priority basis during times of water shortages. In closed door SWP contractor sessions, without ratepayer or public participation, this preference was removed in 1995. Given droughts, climate extremes, and uncertainty of State Water Project water supplies, any contract extension must include this preference and reinstate these contract provisions that were removed without ratepayer notice or participation. This urban preference requirement would ensure that decades of promises, contract obligations, and ratepayer investments by these users, who pay the bulk of the project costs, would not be abrogated. *"It is one of the many ironies of the SWP that those who get the most water pay the least, while those who get the least pay the bulk of the costs."*²³

Thank you for consideration of these views from groups representing hundreds of thousands of ratepayers and taxpayers throughout the State of California.



Bruce Reznik
Executive Director
Planning and Conservation League
breznik@pcl.org



Kathryn Phillips
Director
Sierra Club California
kathryn.phillips@sierraclub.org



Nick Di Croce
Co-Facilitator
Environmental Water Caucus
troutnk@aol.com



Carolee Krieger
Executive Director
California Water Impact Network
caroleekrieger@cox.net



Conner Everts
Executive Director
Southern California Watershed Alliance
connere@gmail.com



Zeke Grader
Executive Director
Pacific Coast Federation of Fisherman's Asso.
zgrader@ifrfish.org



Lloyd G. Carter
President, Board of Directors
California Save Our Streams Council
lcarter0i@comcast.net



Bill Jennings
Executive Director
California Sportfishing Protection Alliance
deltakeep@me.com

cc: Interested Parties

Attachments:

A: Gary Lasky, Transcription of Westlands Water District Board Meeting 1-15-2014, Harris Ranch, Ca.

B: 26th Supplemental May 1, 2002 No DWR-WS-49 Amending 1986 DWR Bond Resolution Central Valley Project Water System Revenue Bonds General Bond Resolution No DWR-WS-1

C: 25th Supplemental May 1, 2002 No DWR-WS-48 Amending 1986 DWR Bond Resolution Central Valley Project Water System Revenue Bonds General Bond Resolution No DWR-WS-1

ENDNOTES

¹ See http://www.water.ca.gov/swpao/watercontractextension/2013_contract_negotiations.cfm & [Department of Water Resources Objectives](#) also see <http://mavensnotebook.com/2013/09/04/contract-length-cash-reserves-and-more-input-from-contractors-at-issue-in-state-water-project-negotiations/>

² This includes seismic retrofit costs of existing facilities, FERC relicensing costs and required mitigation measures, along with changes to debt financing resolutions that would use debt to amortize and fund operations and maintenance, and the added debt costs of “capitalizing” interest costs if included in the financing proposals.

³ [SWRDS Finance Committee Charter - Draft 01.08.14 v.3](#)
http://www.water.ca.gov/swpao/watercontractextension/contract_negotiations.cfm

⁴ Under State statute issuance of Revenue Bonds by the Department of Water Resources [DWR] to fund the SWP automatically requires or places a lien on property taxes from the contracting water districts to repay for the revenue bond debt obligations. To date water districts have utilized a combination of water rate increases and property tax assessments to cover the costs of the SWP. In adopting a bond funding resolution DWR typically relies on the Central Valley Project Act (Water Code, § 11100 et seq.), enacted in 1933 as amended. Under the act the department is empowered to construct and operate various water facilities, among which are those authorized by section 11260 of the Water Code. The act further empowers the department to issue revenue bonds to carry out the objects of the act and provides that the bonds shall not be obligations of the state but shall constitute a first lien on revenues. (Water Code, §§ 11700, 11705, 11720-11722.)

Some mistakenly believe that DWRs authority to issue the revenue bonds was superseded by the California Water Resources Development Bond Act [the Burns-Porter Act Water. Code, § 12930 et seq.]. This was passed by the Legislature in 1959 & approved by the voters in 1960. The Burns-Porter Act authorizes the department to construct and operate the State Water Resources Development System, and provides for the issuance, in an aggregate amount not to exceed \$1,750,000,000 of general obligation bonds. (Water Code, §§ 12931, 12935, 12938.)

The courts have ruled otherwise. see <http://scocal.stanford.edu/opinion/warne-v-harkness-32852>

There is wide discretion for DWR to issue revenue bonds for the construction, operation and maintenance of the Central Valley Project and State Water Project as defined under state law. Once issued water districts have the authority, without a vote of property taxpayers, to raise property taxes to pay for the principal and interest. In a general provision the Burns-Porter Act declares that the facilities authorized as part of the Central Valley Project "or facilities which are acquired or constructed ... with funds made available hereunder" shall be "acquired, constructed, operated, and maintained pursuant to the provisions of the code governing the Central Valley Project." (Water Code, § 12931.)

⁵ <http://www.citizen.org/documents/SWPReport05.pdf> Mismanaging the California State Water Project 2005 @ pg 2

⁶ *Ibid.* pg 2

⁷ See [Bay Delta Westlands BDCP DWR Workshop 11-20-13 Powerpoint](#) Also See the 2011 LAO Report: http://www.lao.ca.gov/handouts/resources/2011/BDCP_Planning_process_10_19_11.pdf @ pg 5 *Implications for BDCP Implementation Funding. The voluntary aspect of planning phase funding also has implications for future funding of BDCP implementation, namely the construction and operation of an alternative system of conveyance that is being evaluated under the planning process. Costs of such conveyance have been estimated at \$12 billion or*

higher. Funding BDCP implementation therefore cannot rely on voluntary contributions and will require amendment of long-term water supply contracts between DWR, the Bureau of Reclamation, and the contractors in order to provide the funding mechanism.

⁸ Water Code §85089. *Construction of a new Delta conveyance facility shall not be initiated until the persons or entities that contract to receive water from the State Water Project and the federal Central Valley Project or a joint powers authority representing those entities have made arrangements or entered into contracts to pay for both of the following: (a) The costs of the environmental review, planning, design, construction, and mitigation, including mitigation required pursuant to Division 13 (commencing with Section 21000 of the Public Resources Code), required for the construction, operation, and maintenance of any new Delta water conveyance facility. (b) Full mitigation of property tax or assessments levied by local governments or special districts for land used in the construction, location, mitigation, or operation of new Delta conveyance facilities.*

⁹ *Ibid.* @ Footnote 4 See LAO report

http://www.lao.ca.gov/handouts/resources/2011/BDCP_Planning_process_10_19_11.pdf

¹⁰ <http://www.water.ca.gov/publications/financials/docs/dwr12fn.pdf> State Water Resources Development System Management's Discussion and Analysis (Unaudited) For the years ended June 30, 2012 and 2011. Pgs 16, 18 & 28.

Also See State Water Project Contractors Authority letter Subject: BDCP Environmental Analysis and Preliminary Engineering Funding, October 30, 2008. *"Funding of the DHCCP will be by advance payments by Participating Contractors. SWP contractors may become Participating Contractors by signing a DHCCP Funding Agreement with DWR. Funding for 2008 will be accomplished through a DWR rebill and a credit equal to the DHCCP funding amount on the rebill from the bond funds released by the Springing Amendment. Funding for 2009 and 2010 will be on the DWR bills and collected in the same manner as the Transportation Minimum Component. Attached is a draft DHCCP Funding Agreement. Also attached is a breakdown of SWP Participating contractors cost share assuming three different participation levels."*

http://cf.valleywater.org/About_Us/Board_of_directors/Board_meetings/2009_Published_Meetings/MG37438/AS37448/AI37602/DO37898/DO_37898.pdf Santa Clara Water District 10-13-09 Workshop: "The District along with

other CVP contractors provided ... amount on the rebill from the bond funds released by the Springing. Amendment Funding for 2009 and 2010 will be on the DWR bills and ... the Delta Habitat Conservation and Conveyance Program (DHCCP). See also- San Geronio Pass Water Agency Nov 10, 2008 - become Participating Contractors by signing a DHCCP Funding ... rebill from the bond funds released by the Springing Amendment.

<http://sgpwa.com/pdfs/Agenda-2008-Nov-10-900.pdf>

¹¹ http://www.water.ca.gov/swpao/watercontractextension/2013_contract_negotiations.cfm & [Plumas County Objective](#)

¹² The reserve account provides for the purchase of riskier investments including purchase letters of credit, surety bonds, or other higher rated (AA) or better credit facilities - these are cheaper for the issuer to fund the reserve account. The 1986 Bond Resolution and Attachments B&C: Amendments 25 & 26 to the 1986 Resolution dated May 1, 2002 and April 1, 2002. Common debt service reserve fund levels are 1x MADS. Moody's made the following comment in their review of the 50% reduction under the amendment, "The debt service reserve requirement is also weaker than for the typical municipal water enterprise at only 50% of maximum annual debt service. Given the Department's other credit strengths, however, this below average reserve is not heavily weighted in our analysis."

¹³ On June 11, 2013 a majority of the MWD Board of Directors voted to suspend these limits on property tax rate increases despite protests from the Southeast Water Coalition representing various cities, San Diego Water Authority and some 20 different community leaders and groups. [<http://www.citywatchla.com/lead-stories-hidden/5221-will-angelinos-be-submerged-in-a-new-water-tunnel-tax>] *“Despite efforts by business groups, community activists, mayors and several Southern California water agencies to stop unnecessary rate hikes and increased property tax collection by the Los Angeles-based Metropolitan Water District of Southern California, the board voted to increase spending by \$75 million instead of returning the money or rolling back rate increases.”* [<http://www.mwdfacts.com/momentum-builds-to-halt-mwds-over-collection/>] Proposition 218, known as the Right to Vote on Taxes Act, added Article XIII D. Metropolitan Water District and other wholesalers of water argue that Article XIII C and XIII D do not apply to MWD’s rates because they are not “imposed”; they are voluntary charges for property owned by MWD; and in any event the rates and property tax increases are approved by a 2/3s vote of the “electorate”—in this case the “electorate” is the MWD Board.

¹⁴ [<http://www.sdcwa.org/mwdrate-challenge>] Limits on tax rate increases for the reasonable cost of service and debt are routinely suspended by the MWD Board. Section 124.5 of the MWD Act places limits on property tax rate increases. Section 124.5 permits Metropolitan to suspend the restriction if, following a public hearing, the Board finds that such revenue is essential to the fiscal integrity of the District. [<http://ronkayela.com/wordpress/wp-content/uploads/2013/06/06112013-BOD-8-2-B-L-1.pdf>]

¹⁵ Metropolitan Water District of Southern CA (who makes up 46% of water entitlements) and more than three quarters of the combined contract revenue pledged to the water revenue bonds are rated Aa3 or better. Under existing contracts with DWR the contracts are take or pay contracts, this means certain payments are due regardless of the actual water delivery levels. The Department has a rate covenant of “1.25x” that they charge the contractors and there is a step up provision in the contracts (non-defaulting contractors are generally required to make an additional step up payment of up to 25% of their own contract payment if needed to cure defaults by other contractors). In the event of contractors operating revenues being less than required to make its fixed contract payment, the contractor has an obligation to levy a property tax assessment in an amount to make up the shortfall (this levy falls outside of the state’s 1% property tax limit).

¹⁶ [<http://www.sacbee.com/2013/12/07/5978184/delta-water-tunnel-project-needs.html>] **Delta water tunnel project needs \$1.2 billion more for planning** By Matt Weiser Dec. 7, 2013, *“The giant Delta water-diversion tunnels proposed by Gov. Jerry Brown need \$1.2 billion more spent on planning and design before construction starts or is even assured.”*

¹⁷ See Attachment A: Transcript and Notes from WWD November 2013 Board Meeting @ pg 7.

¹⁸ See Attachment A: Transcript and Notes from WWD November 2013 Board Meeting @ pg 7.

¹⁹ See Fitch Bond Rating 2009, *San Luis and Delta-Mendota Water Authority, California Delta Habitat Conservation and Conveyance Program Development Project*. *“There is concentration amongst WWD water purchasers. But offsetting this risk somewhat is the value of the cash crops farmed in the district (about \$1.3 billion in fiscal 2008) and the absence of alternative/equivalent supplies or infrastructure to deliver water. In addition, WWD potentially has the ability to sell and transfer water rights outside the district should agriculture cease to be economic, as the*

demand for water in southern California and the San Francisco Bay area by users with connectivity to the CVP is very high.”

²⁰ <http://www.sfgate.com/opinion/article/Away-go-our-dollars-down-the-delta-drains-5132228.php>
“Away go our dollars down the delta drains” Richard Walker, SF Chronicle Friday, January 10, 2014.

In all this, Westlands is the tail wagging the water dog. The district has the lowest priority water rights and can't get enough water in dry years. The district wants more water diverted from the Sacramento and the North Coast, not less. They don't give a fig for the fish, having sued to stop water releases for salmon in the San Joaquin and Trinity rivers. I have a better solution. Instead of building the Delta Drains, use the money to buy out Westlands, about \$9 billion at current land prices. This would be cheaper and have the added benefit of saving 1 million acre-feet a year (average) now going to Westlands, leaving that water for other farmers and urban users.”

²¹ <http://www.citizen.org/documents/SWPreport05.pdf> “To date, the North of Delta and Delta regions have born the near entirety of the direct negative environmental and economic impacts of the project and reaped scant amounts of the economic benefits. Kern County agribusiness, other the other hand, has secured the lion's share of the economic benefits, and has distributed those benefits in a highly inequitable manner. Since the State Water Project began pumping subsidized water to Kern County agribusinesses, the concentration of landownership has steadily increased, numbers of farms have decreased and rural poverty indicators have increased. The Kern water agency contracts for 24 percent of the State Water Project's water. The Agency has actually received, however, 42 percent of the water and paid for only 13 percent of the costs of the project The Metropolitan Water District of Southern California contracts for 48 percent of the water, but has received only 31 percent while paying for 62 percent.” Pg 4

²² Also see <http://onthepublicrecord.org/2014/01/16/manage-what-exactly/>
<http://onthepublicrecord.org/2014/01/page/2/> “Nut crop growers put a whole lot of capital into their orchards, then point to their orchards as hostages in drought time. “But we must get water, or our trees will die!” I've never understood why the public at large should be the backstop for the bad choice to plant crops with a constant water demand in a variable climate. If there is a state interest in growing nuts and grapes in particular, it hasn't been explained... I understand the grower's interest in growing a valuable crop, but since the profits from that aren't returned to the state, I don't see why the risk should be.”

²³ <https://www.callawyer.com/clstory.cfm?eid=919370> A Run on the Water Bank --A determined investigator pursues a Los Angeles billionaire for allegedly seizing control of the state's water supply. It's Chinatown again, Jake. by Bill Blum | December 2011

Also see: http://www.citizen.org/documents/Water_Heist_lo-res.pdf “Don Villarejo writes that from the first SWP water deliveries in 1968 through to 1980, San Joaquin Valley contractors received 63% of the water delivered—almost entirely for agricultural irrigation—while mostly residential Southern California water users paid 70% of the costs of the project. “It is one of the many ironies of the SWP that those who get the most water pay the least, while those who get the least pay the bulk of the costs.” Pg 28

Attachment A: Transcript of WWD Board Meeting—Bay Delta Conservation Plan

By Gary Lasky, Sierra Club Tehipite Chapter, Fresno, CA Contact: data.nations@gmail.com or 559-790-3495 (phone or text). Note: In the Q&A, all questions are from the Board members (except one late in the session from Mark Borba a Westlands grower not on the Board). All answers are by Tom Birmingham.

WESTLANDS WATER DISTRICT SPECIAL BOARD MEETING

January 15, 2014, 9:00 a.m.
Harris Ranch Inn & Restaurant
Coalinga, CA

AGENDA

1. Bay-Delta Conservation Plan

Tom Birmingham (General Manager, Westlands Water District):

At the November 20 WWD workshop we had the BDCP work plan presentation. How we will proceed, if we decide to proceed ...

[WWD staff] Jim Watson, Jason, Sue Ramos staff are here today. [I will describe] the process we will have to go through to permit the project from the state and federal government. Cost obligations ...

Been working eight years, since 2006, and this plan has been signed on to by DWR, DFG, MWD, SWRCB and Santa Clara WD. Planning agreement [is that it will have] an NCCP per California DFG Code and an HCP per ESA Section 10.

[Estimated] \$240M cost for the plan. In November [2013] a Draft Plan and Draft EIR were released.

Analysis assumptions: **“I wish I could say there is some basis for these assumptions, but there is not.”** Issues need to be resolved. What criteria will govern the operation of the conveyance facility?

Analyzing the low-outflow and high-outflow scenarios. If the high-outflow scenario is adopted, plan is not viable without water from another source. State says water supply will diminish per Climate Change, increased restrictions [on pumping]. This doesn't mean we can go forward with a plan that will make all crops unaffordable. We need the plan to be of a sufficient size to justify the cost.

I am confident sufficient water would be available to supplement the high-outflow scenario. Opportunity for other agencies to contribute water for 50 years. And who will pay for it? It should not fall on water agencies to pay for the entire project.

If the low-outflow scenario is adopted, then there will be sufficient water. Issue of what water will be available to the projects [SWP and CVP] under this scenario. 50/50 split?

Issue of [prior appropriative rights]. How to share responsibilities under a coordinated operating agreement?

Information from the Nov. 20th presentation was taken from project plans. These will [not?] change dramatically over the next 10-12 months.

“Issues are: unless we are guaranteed adequate, affordable water supply, [WWD] staff cannot approve. We would need to approve documents.”

\$1.2B for planning and design stages. Required for CVP contractors to pay. Next week’s [WWD] Board meeting will address this issue.

Q: What is Westland’s share of the \$1.2B?

A: Depends on which contractors participate. To date, all contractors are participating in the planning stage, but some contractors are expected to drop out. Worst case: only Westlands and Santa Clara WD will participate, meaning \$540M for Westlands’ share. If all contractors share, then best case: \$390M for Westlands’ share.

[18:20]

Q: If tunnels are never built, we are out the money?

A: If we go to Design stage, yes.

[Question about financing].

A: CA bonds would be issued to repay our bridge loan OR bonds would pay for design and construction. [?]

Q: Is \$14.5B the total number? What’s Westlands portion?

[Someone on Board]: That’s the high figure without interest.

A: 50% of construction costs are paid by CVP contractors. Westlands’ share is 67-72% of that.

[Tom Birmingham:] Who will pay the cost of delivery to exchange contractors and refuges? Under existing law, delivery would be shared between agencies [CVP agencies]. Section 3406(d) makes water delivery cost to refuge [as] reimbursable. Not the exchange contractors.

We say in our discussions with the federal agencies, ‘Apply the law’. But if we apply the [existing] law, we will get objections from other contractors. So it’s a political problem, preventing us. Under law, exchange contractors’ cost for water delivery would be borne by Friant [Water Authority, representing Eastside CVP contractors]. But Friant refuses to pay. Westlands’ share depends on which contractors participate. It could double our cost.

\$9.5B of project facilities. People receiving water pay the cost, but as the water is delivered, Friant reimburses to do periodic “true ups” for financing.

Q: What is the total cost of the project, including inflation?

A: \$17.9B is the midrange estimate, most-likely cost. [This estimate] is not with a 90-95% certainty, but not with a 50% certainty, either.

[26:25]

See slide 3c [in November workshop Powerpoint [Bay Delta Westlands BDCP DWR Workshop 11-20-13 Powerpoint](#)]. Exceedance curve based on current operating criteria.

“Let’s take high-outflow scenario off the table. Not something with which we could ever agree”.

Under high-outflow [he meant low-outflow] scenario: 5.8 Million acre-feet [MAF] average. Assume water will be split between two projects [SWP and CVP]. Then 2.9 MAF available to south-of-Delta [contractors].

2.9 MAF,
minus 800 KAF to exchange contractors,
minus 300 KAF to refuges
equals 1.8 MAF, on average, to water service contractors.

1.1 MAF to Westlands share of water. This is significantly more than our supply today. Benefit as to restoration of our supply.

[30:30]

“Now that is a very, very optimistic analysis. But under a low-flow scenario and under an assumption that this water will be split evenly between the two projects, it is not unreasonable to assume that in an average water year our water would be 75-80% of our existing contracts quantity.”

Q: And if smelt [and salmon] continue to decline?

A: “That’s a question that we are continuing to explore. And one of the great frustrations of this whole process is that we’ve been at it now eight years and this question is still unanswered. And they’re unanswered in large part because the federal government has been schizophrenic about this project.

The HCP/NCCP guarantees ‘no surprises’. But Section 10 of the federal ESA law does not apply to the Bureau [of Reclamation]. Section 7 applies.

[32:15]

We ask how federal contractors can be given the same assurances as state contractors. Absent the species being on the brink of extinction, we do not need to contribute more water or more money.

“NOAA Fisheries and the US Fish & Wildlife Service say ‘we don’t know if we can provide you these assurances’. This is critical. If we do not have satisfactory answers about the water supply, cost and [no-surprise HCP] assurances, by June of this year, this project is *done*.”

[34:35]

Q: I need these assurances by next Tuesday. I can’t vote for this without assurances.

A: Resolution [to the WWD Board] next week would authorize staff to go forward to prepare paperwork to issue bonds just before the Record Of Decision, supposedly in December, 2014. Bonds will not be issued unless our criteria are met in June. An activity agreement will authorize financing. A member can withdraw from the activity agreement. You can pull the plug at any time before the bonds are issued.

Q (Larry): Our costs are somewhat nebulous [but relatively well understood], but [estimating the] benefits are impossible to do. **“I want to be damn sure we have the right to get off the bus”.**

Q: Is June the drop-dead date?

A: June is the projected date when our cash will run out. Estimated cost of \$6M to keep plan going. MWD is most adamant [to keep it going]. We had a meeting with the Governor about the drought this week. Many people there told him **“unless these issues are worked out, there’s not going to be any additional funding coming from the public water agencies.”**

[43:03]

To be fair to the state, the problem that we have with these issues is not a problem with the state; it’s a problem with the federal government. Last week we had a meeting with the federal agencies [inaudible] that said we’ve spent \$240 [\$140?] million and 34,000 pages of analysis, and the federal agencies still say ‘not sure this is going to be a permissible project’.

But how the hell can you possibly say that? You’ve got the California Department of Fish & Wildlife under the [stricter] state law than you’re applying under federal law. They [the state] say this is going to work just fine. And yet, you’ve got biologists in the federal agencies—not people in political positions or even management positions—we’ve got biologists who are saying ‘we still don’t know if this is going to work. There’s too much risk associated with it’.

[44:25]

“So it’s very exasperating. But again, if these issues are not resolved, we’re done. That message is being sent very clearly to the federal agencies.”

[45:13]

“The federal agencies are saying, ‘we want to have to be able to come back to you anytime for more water’. At some point, political appointees are going to have to make a decision. Earlier I’d said that the federal government is schizophrenic about the projects. There are, the people, the Secretary of the Interior, the Deputy Secretary of the Interior, the Commissioner of the Bureau of Reclamation, Director of Fish & Wildlife Service and all of these saying ‘We have to do this. And we’re going to make this work’.

But then we have people who are responsible for implementing that decision who, from my perspective, are doing everything they can to frustrate efforts to come to closure. The basic problem is that every time you complete a stage, the federal agencies—the biologists in those federal agencies—say, ‘We need more analysis. We need more analysis’. They don’t want an agency decision.”

[46:09]

Q (Frank): [inaudible]

[46:25]

A: **“Well, you’re absolutely right, Frank [stammering!] and we invented [inaudible]. And the federal agencies—the heads of the federal agencies— [inaudible] make it necessary for us to move forward.**

[46:39]

You may remember a time in 2010, Westlands sent a letter to the Department of the Interior saying that we were actually withdrawing from the process. And at that point, because of some of the decisions that were being considered, I even sent that letter and a statement was made in a way that was satisfactory to us.

[47:04]

But, speaking quite candidly, ultimately I think it's going to have to have is, um, this program is going to have to be legislatively approved if we are going to satisfy the needs and conditions in a satisfactory way.

[47:29]

This is not even the first time that this has occurred. There is a Habitat Conservation Plan approved by [inaudible] the Missouri River. Interior was involved in. Agencies were trying to develop a Habitat Conservation Plan experiencing the same problems that we are. Not necessarily to the same degree. But ultimately, [inaudible] went to Congress and said 'If you want something done here, you're going to have to approve this'. And Congress approved it. Now I don't know that that's where we're going to end up. But it wouldn't surprise me if that's where we end up. Or we commit to spending the [inaudible] on private efforts. We need to have those questions answered.

And there are other examples. The Everglades is one example. And [inaudible] you want to address either of those situations. But we are finding ourselves in a real similar circumstance."

[48:32]

Q: It's a test of nerves. I mean, seems like [inaudible]. See who will blink first.

[49:05]

Q (Frank): You're threatening them with something they don't want to do anyway [inaudible 10 seconds].

A: "You're right, Frank. It depends on what the question of "is" is. Who is the "them"? If you're talking about the biologist in Sacramento at NOAA Fisheries, you're absolutely right. I think, honestly, they don't want to see this program go forward. The status quo is perfectly acceptable to them, to the NOAA biologists in Sacramento.

I'm going to say this. We were in a meeting, gosh, two months ago, just before the draft document was going to be released. And there was an employee there from the Bureau of Reclamation. And we were talking about the issue how do you resolve the question of who pays for [inaudible]. And we were talking about the developments out [inaudible]. But we were talking about the development of the paper that describes the federal interest in this project.

And it was an employee of the Bureau of Reclamation who said, 'Well, frankly, we don't, I don't see the federal interest in this [project] Because the status quo is working just fine'. And I looked at her and said, 'Are you out of your fucking mind?'. I shouldn't disclose to you that I use that kind of language in meetings with the Bureau of Reclamation. But I do.

Because I said, 'How in the world do you expect to ever recover the costs associated with this project, the capital costs associated with this project, if you can't deliver water to the only contractors who pay for it? The refugees don't pay for it and the exchange contractors don't pay for

it. So how do in the world can you expect to recoup the federal investment in the project if you can't deliver water to the water service contractors who pay for it? Isn't *that* a federal interest?"

And her response was, 'Well, you know, I'm looking at it from the perspective of, we're obligated to deliver water to the exchange contractors and the refugees. And we're not obligated to deliver water to anybody else.' That is the attitude of at least some people in the Bureau of Reclamation. So when you say 'them', Frank, you're absolutely correct, at least to some people within the federal government.

[52:04]

When you talk to the people in Washington and you talk to the managers even in the regional offices, they do see it that way. So, it is a question of, this is what is preventing us from making more progress on these issues. It is the disconnect between those people at the top and those people who are actually responsible for doing the work to implement the policy direction of the people at the top. That disconnect has prevented us from resolving these issues. And again we've got people here who have been working on this on a daily basis."

52:45

Q: If the people at the top would just consider ... [inaudible]. They're just hiding behind the biologists [inaudible].

53:20

A: "I don't have the sense that that is the current thing. The problem is that people like that [inaudible]. Mike Connor is been nominated to be the Deputy Secretary at Interior and he [inaudible] new appointee to the Department of the Interior, is committed to restoring the Delta—wait, I can't say that—to improving the environment of the Delta, conserving at-risk species, and protecting the economy of the State of California. He gets that. And he firmly believes in that. So he will come to a meeting in Sacramento. He will make all of the right decisions. And then [inaudible] goes back to Washington and people who are responsible for implementing those decisions are not enthusiastic about [inaudible]. And so, I can't tell you, but there are multiple times when we'll have a meeting in Sacramento, things fall apart when we go to Washington, meet people there and things get put back in the tracks. And that's why we are eight years into this and no further along than we are. Because we got to do that repeatedly.

54:42

"And I have to say, to the credit of the people in Washington, every time we go back there, the issues are resolved in a way that are satisfactory to us. Again, I can't, I don't know how this is just gonna take ultimately to get the project approved. But frankly, ultimately, Congress saying, '*you shall do this*'."

Q (Claude): [inaudible]. I hope we aren't going to Congress right now and trying to get something passed, where under the existing, the way it sits today, because that is [inaudible].

56:17

"A: I can't disagree with you at all. But unfortunately, we are finding that, I hate to describe it this way, but playing to the lowest common denominator. And until we are in a position to go to Congress and say 'We have a plan the State of California thinks will work. And here's the basis for

the State of California's determination.' I don't think that we can go to Congress. And so the [inaudible] of this discussion means aims to [inaudible]."

Senator Feinstein has been very supportive of this plan. Does this mean she will vote for a bill that guarantees water and costs? Don't know.

Cost-benefit analyses from UC-Berkeley show urban agencies would benefit the most [from the BDCP].

Q: Everglades [National Park] had a federal point person to pull together parties. Could we have this?

Q: **"Why aren't we requesting that, Tom?"**

A: **We have been saying to our partners, 'for this to be a go, it will have to approved by the State legislature and Congress. Our partners [water districts] have rejected this approach. They may now come around, after the impediments put up by the [federal] agencies. Speaking very candidly here, it is my belief and it has been my belief for some time that this is going to have to go through, by the State legislature and by the Congress. And it's not something that has not been done in the past.'**

62:08

Q: [from Mark Borba, a Westlands grower in the audience]: **"Back to the dollars and cents. I have two questions. With regard to the \$1.2B, and I guess our share is just about half—that's roughly \$1,100 an acre debt on every acre in the Westlands Water District just to prepare the documents—just to prepare the documents, get the engineering done, and we haven't turned a teaspoon of dirt. That's one number that I kinda got my arms around and I guess that's the price of admission. But when we go to the next phase, says now it's going to be \$14-18B. Is there a figure of bond indebtedness per acre that [can be calculated] for our share?"**

63:15

A: **"The answer is yes. If you go back to the November PowerPoint.**

[Bay Delta Westlands BDCP DWR Workshop 11-20-13 Powerpoint](#)

It depends on who pays the exchange contractors. $\$16B \times 50\%$ [CVP contractors pay half] $\times 71\%$ [Westlands share of CVP contractors] divided by # of acres in WWD = $\$170-200/\text{acre}$.

"In the worst-case scenario. Will we be carrying the interest? It will cost a little under \$10B to construct facilities. \$14.9B is the cost to share among the public water agencies. At 5% interest over a 30-year bond, the total cost is \$30B. Westlands' share of the principle is \$2.6B. So, $\$14.9B \times 61\%$ = $\$20K/\text{acre}$."

Q: If the District goes broke, will the bondholders not come back [and go after the Westlands landowners?].

The security on the bonds is the [Westlands] district's revenue, *not* the landowner's land. In a worst case, we file for bankruptcy. That's what the District could do. The landowners' land is not security.

$\$29.8B \text{ in dept} \times 50\% = \$14.9B.$

5.8 MAF of water, on avg.

→ $\$172$ per AF cost per year

assuming the costs are shared per the water laws.

Q: This assumes a 30-year bond deal. It could be a 40- or 50-year bond?

A: No. The financing is over 30 years. The water deliveries continue for an additional 10 years, 40 years in total, and this makes the calculations more complicated.

There is an estimated \$17.9B capital cost in the second to last page of the November presentation. The low-outflow scenario is \$238 per AF.

Q: I'm concerned about the \$38B estimate.

A: I'm concerned that the \$38B cost is grossly exaggerated.

Q: The Bay Bridge was estimated at \$1B. The final cost was something like \$6B. I'm concerned the final cost is \$150-180B.

Q: (Jimmy): Many of us have been in risk management for 20 years. The risk management plan is to take high-risk items. Have a program management office with an audit function, tap outside experts through the design and construction phases.

Q: Didn't the Bay Bridge have these same safeguards in place?

Q: The Bay Bridge cost overruns were based mainly on the new design—they went from a utilitarian design to a sleek work of art—and also on contractor problems that Caltrans could not get a handle on.

A: The City of S.F. just built a tunnel similar to this project; it cost a lot less [than projections for BDCP]. If we bring in the people that did this ... take it out of the [hands of] the large State bureaucracy.

[10-MINUTE BREAK]

96:27

Q: Where are we today relative to where we could be in the future? Tunnel job is estimated at \$3.6B, cost \$4.4B because of expanded scope. Where are we today relative to where we will be in the future [inaudible].

A: **“Based on the constraints that currently govern the operation of the two projects, our average water supply reliability is 35% today. That means if we have a series of ten consecutive average years, then we should expect to get 35% of our supply in those years. This is always problematic. Mark Borba talks about averages. If you have an average year following a critically dry year, it's near zero [percent]. If you have an average year following a real wet year, you get 50, 55%. It really depends on how the years stack up. Please understand that. But in an average year, our analysis shows an average reliability of approximately 35%.**

“We are, I have been frequently asked the question, ‘What is it that you expect to get out of this program in terms of water supply? You know there are people who say this is an effort to increase our water supply, you could say we take more water.

“I don't describe it that way. I describe this as a project that is attempting to *restore* our water supply and to improve our water supply reliability. And if you go back and look at the original planning agreement, that was one of the dual objectives of this program was to restore water supply [long-term ?].

98:59

“Our objective throughout this process is not return to in 1988 or 1992 when we had a 90% reliability, 92% reliability. Our objective has been to get us to a point where we are 75 to 80% reliable. And this is the question that Mark [Borba?] and I were talking about during the break. Based upon a lot of assumptions that I can go in to, if you want to talk about incremental costs of this water, the restored water supply, the incremental cost of this water is approximately \$348 per

AF out to the meter. So I can guess one way you could look at this, is if we were to come to you and say ‘would you be interested in buying 10,000 AF of water for your operation at \$348 out to the meter? It’s going to cost us an additional \$200 an acre-foot to deliver every acre-foot of water.’

Many assumptions: \$348 per AF is the incremental, marginal cost of water. Of the total contract water, 75% of this is 890 KAF. 470 KAF would be recovered.

35% (of contract) existing delivered water in an average water year @ \$148/KAF
+ 40% additional delivered water from BDCP in an average water year @ \$200/KAF
= 75% total delivered water with BDCP @ \$348/KAF

103:48

“And we can look at where we are today versus the No Action alternative. And the No Action alternative and the No Action alternative is [inaudible] due to climate change. And there is less water available because of climate change. And the quantity of water that is available to us is below 35% [inaudible]. If we have [inaudible], but when we have additional restrictions on the operation of the project because of Sacramento splittail [a fish now up for federal Endangered Species Act listing] or some other species has been listed or there’s new [inaudible] upstream operations, that affects salmon, our water supply will continue to go down.

104:41

“For example, the Bureau of Reclamation right now is evaluating a proposal to release an additional 50,000 AF of water, on average, annually on average, 50,000 acre-feet of water annually, down the Trinity River. That would further reduce our average water supply, And so, I can’t tell you where we will be *if we do* this project. But what I can tell you is there is a point—Mark and I were talking about this as well during the break—there is a point at which we have to say ‘No, we’re not going forward’. And if we cannot get to a place where we can expect, on average, 75% of our water supply, back, then the feasibility of this project becomes very questionable.

That takes me back to what I said earlier about how the public water agencies have been saying with a unified voice, ‘we have to have certain—there are no guarantees in life—but we need to have some certainty as relation to water supply, assurances and costs.’

Q: (Gary): Had we had the project last year, what would our allocation have been when we had a 20% allocation?

A: 45%. 850 KAF were lost [for Delta fish?]. Source: Director of Cal. Dept. of Fish & Wildlife.

Q: If exchange contractors and refuges get 100% ... [missing from notes] ...

A: The analysis was prepared by Mr. Watson—who doesn’t work for the state, no matter what Lloyd Carter says. Jim is an engineer. And [by] our bond underwriters.

[We retain our] previous direction to the Board, to be able to pull the plug at any time.

We won’t consider the high-outflow scenario or a scenario where the District picks up the tab for ... [missing from notes].

\$9.4B is not accurate if we follow existing law for allocating costs. If you assume 50% of \$30B paid by federal contractors. Westlands share is 37%. 3.2 MAF commitment from feds to exchange contractors and refuges. 3.2 MAF x 37% = 1.193 MAF → \$15B.

Q: If Governor declares a drought emergency, what does it mean to District and growers?

A: Motion to add this item to the [meeting] agenda. Requires a unanimous vote.

[Unanimous AYE vote to add item to the agenda].

Water supply now is worst it has ever been. We met with the Governor in the Westlands office [this week, probably Monday, 1/13]. Westlands did not create the invitation list—regardless of what Mario Santoyo says on the radio. The Governor’s office created the invitation list.

Folsom reservoir: 200 KAF lower than in 1976-77 water year. Oroville: 300 KAF lower. San Luis reservoir: a couple of hundred KAF lower.

Our allocation is going to be 0%. Will remain there [this water year] unless drought conditions change [in the next couple of months]. If conditions persist, 800 KAF could be pumped from Jones pumping station [for Delta fish]. Now have 340 KAF of federal [CVP] water in San Luis Reservoir. All is “rescheduled” water; it’s there because of conservation measures taken by farmers. They are not planning to limit rescheduled water and we will press them on this.

In 2009, they contemplated prohibiting rescheduling and we persuaded Reclamation not to.

Absent health and safety issues, from drawing down the reservoir too quickly, there will not be a change in rescheduling.

Then 250 KAF might be taken from Friant contractors, Millerton Lake, to deliver to the exchange contractors.

California Emergency Services Act [states that] if the Governor declares an emergency, he would have the authority to have State agencies waive all requirements. Could waive outflow requirements to the Delta, providing water supply maybe. Could order SWRCB to expedite transfers and I expect he will. A State of Emergency [declaration] by the State would not affect federal water.

“The Biological Opinions are not constraining operations; *there is no water to pump.*”

Neither Reclamation nor DWR can comply with the SWRCB water quality standards because the situation is so dire.

The story to tell Brown and Feinstein: if we had not instituted the Biological Opinion [BO] last year, when we lost 800 KAF, then we would be in a better place today.

Someone asked him [at the Westlands meeting] whether the RPA was mandatory or discretionary. The Governor was sharp, really understood this stuff. He asked the DWR head [at the meeting] which last year’s cuts were. The answer was “discretionary”.

Work on an emergency operations plan as to what to do to negotiate a plan with the Feds. The California Secretary of Food and Agriculture, Karen Ross, clearly understands what water prices are doing to growers. Why haven’t we declared an emergency yet? DWR wanted to wait to see what the hydrology would be in January. I have no doubt an emergency will be declared, but we need to follow required process to avoid a lawsuit.

Q: [missing]

A: Unaware of any provision of the ESA that would enable a waiver of federal rules. Nothing in the ESA would excuse violating the BO [just] because it was an emergency. [But] within the BO there is

discretion. They can have a contingency plan for us to retain as much water as possible if there is a rain event. We have negotiated a water purchase from Oakdale and San Joaquin [?] water districts if they have water in their district.

In worst case, 30-50 KAF, pessimistically, of supplemental water [will be available] from the Yuba River, and others if it starts to rain in February/March, optimistically 100-120 KAF.

If Reclamation can't provide 75% of 3.3 MAF to exchange contractors, from the Delta or other sources, including groundwater, then they must transfer from Millerton Lake. We are looking at a fallowing program, purchasing water from irrigated pasture.

SWRCB will vigorously enforce water rights. Many [farmers] with appropriative water rights have been illegally taking water that was released from upstream storage. They can only legally take naturally-flowing water. In 1976-77, DWR had loaned staff to drive levees and look for diversions.

We've asked to extend the transfer period to September/October [?]. We hope water will come to us in April-May.

Q: How much more supplemental water is to be arranged?

A: 8 KAF of Yuba water. 2 KAF of others. This frees up an opportunity to transfer other water into the district.

“We are pursuing pumping water into the [SWP] Aqueduct. Historically, this has been limited.”

The State is negotiating a plan [BDCP] with the Feds and we are expected to pay for it. We did not have a chance to review the documents before anyone else [this is unfair to Westlands].

Q: Why don't you guys just build one tunnel?

A: The cost is [much more than half the cost of twin tunnels, with the boring expenses].

Q: I understand there is a BDCP workshop in Fresno tonight?

A: We are scheduling a BDCP workshop for the growers. The District is not submitting comments at tonight's workshop. Limit is three minutes and you can't say much in three minutes. I don't think these are formal comments.

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

TWENTY-FIFTH SUPPLEMENTAL RESOLUTION

(NO. DWR-WS-48)

Adopted as of April 1, 2002

amending the

Central Valley Project Water System Revenue Bonds
General Bond Resolution
(No. DWR-WS-1)

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TWENTY-FIFTH SUPPLEMENTAL RESOLUTION
(NO. DWR-WS-48)

amending the

Central Valley Project Water System Revenue Bonds
General Bond Resolution
(No. DWR-WS-1)

WHEREAS, as of July 1, 1986, the State of California Department of Water Resources (the "Department") duly adopted a resolution designated "No. DWR-WS-1", and entitled "Central Valley Project Water System Revenue Bonds, General Bond Resolution" (as supplemented, the "Resolution");

WHEREAS, under Article XI of the Resolution, the rights and obligations of the Department and of the Bondholders under the Resolution may be changed in any manner by a Supplemental Resolution, when approved by the Holders of sixty percent (60%) of the principal amount of Bonds then Outstanding, which Supplemental Resolution shall take effect when and as provided in said Article XI;

WHEREAS, by adoption of this Twenty-Fifth Supplemental Resolution, the Department seeks to amend the Resolution;

NOW, THEREFORE, BE IT RESOLVED by the State of California Department of Water Resources as follows:

ARTICLE LXXXV

AMENDMENTS TO GENERAL BOND RESOLUTION

SECTION 8501. Amendment of Section 101. (a) The definition of "Reserve Account Requirement" shall be amended to read in its entirety as follows:

Reserve Account Requirement, for any date of calculation, means, for all Series of Bonds Outstanding for which interest is then payable in whole or in part from Revenues, one-half of the maximum Annual Debt Service for the then current Year or any Year after such date of calculation.

(b) The definition of "Reserve Fund Instrument" shall be added to Section 101 and shall read in its entirety as follows:

Reserve Fund Instrument means a letter of credit, surety bond or other credit facility issued by a provider the unsecured obligations of which, at the time of initial deposit of such facility, are rated not lower than "Aa" by Moody's and "AA" by S&P, and the deposit of

which shall not result in a withdrawal or downgrading of any rating of the Bonds then in effect.

SECTION 8502. Amendment of Section 606. The following paragraph shall be added to the end of Section 606:

The Department, at its option and notwithstanding any contrary provision in the Resolution, may withdraw, in whole or in part, amounts required to be held in the Debt Service Reserve Account upon the deposit of a Reserve Fund Instrument with the Treasurer, as trustee, in a stated amount equal to the amounts so withdrawn. Any such withdrawn moneys shall be transferred, upon the written direction of the Department, to any legally permissible fund or account, including any special account to be established for the payment of any fees in connection with obtaining such Reserve Fund Instrument. Upon request of the Department or as may be provided in a Supplemental Resolution, Revenues deposited in the Debt Service Reserve Account shall be used to reimburse draws on any Reserve Fund Instruments therein, but only to the extent that such reimbursement results in a commensurate increase in the amount of available coverage provided under the respective Reserve Fund Instrument. If the aggregate amount so available at any given time is less than the aggregate amount due for such reimbursement with respect to more than one Reserve Fund Instrument, the amount so available shall be divided among the providers of such Reserve Fund Instruments in proportion to the respective amounts due. The amount available to be drawn under any Reserve Fund Instrument on deposit in the Debt Service Reserve Account shall be included in calculating the amount credited to such Account.

ARTICLE LXXXVI

MISCELLANEOUS

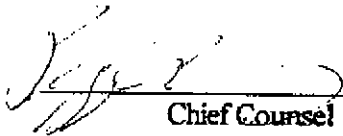
SECTION 8601. Effectiveness of this Supplemental Resolution. As provided in Article XI, the provisions of Article LXXXV of this Twenty-Fifth Supplemental Resolution shall not become effective until the written consents of the Holders of at least sixty percent (60%) of the principal amount of Bonds Outstanding shall have been obtained and the other requirements contained in Article XI shall have been satisfied. Until such time as the provisions of Article LXXXV become effective, the provisions of the Resolution shall remain unaltered and in full force and effect, except as the Resolution may be otherwise amended in accordance with Article XI or discharged in accordance with Section 1204.

SECTION 8602. Designation and Delegation. The Chief, Division of Fiscal Services of the Department is hereby designated by the Director as a person who may sign any and all certificates, agreements and other instruments that are necessary or appropriate in connection with this Resolution.

SECTION 8603. Counterpart Signatures. This Twenty-Fifth Supplemental Resolution may be executed in counterparts, and all such counterparts, taken together, shall constitute one instrument.

THIS RESOLUTION is hereby adopted in the State of California by the State of California Department of Water Resources as of the 1st day of April, 2002.

Approved as to legal form
and sufficiency:



Chief Counsel

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES



Director

Approved:
BILL LOCKYER
Attorney General of the
State of California

Approved:
PHILIP ANGELIDES
Treasurer of the State of
California

By _____
Deputy Attorney General

By _____
Deputy State Treasurer

Approved:
ORRICK, HERRINGTON & SUTCLIFFE LLP

By _____

SECTION 8603. Counterpart Signatures. This Twenty-Fifth Supplemental Resolution may be executed in counterparts, and all such counterparts, taken together, shall constitute one instrument.

THIS RESOLUTION is hereby adopted in the State of California by the State of California Department of Water Resources as of the 1st day of April, 2002.

Approved as to legal form
and sufficiency:


STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

Chief Counsel

Director

Approved:
BILL LOCKYER
Attorney General of the
State of California

Approved:
PHILIP ANGELOIDES
Treasurer of the State of
California

By 
Deputy Attorney General

By _____
Deputy State Treasurer

Approved:
ORRICK, HERRINGTON & SUTCLIFFE LLP

By _____

SECTION 8603. Counterpart Signatures. This Twenty-Fifth Supplemental Resolution may be executed in counterparts, and all such counterparts, taken together, shall constitute one instrument.

THIS RESOLUTION is hereby adopted in the State of California by the State of California Department of Water Resources as of the 1st day of April, 2002.

Approved as to legal form
and sufficiency:

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

Chief Counsel

Director

Approved:
BILLY LOCKYER
Attorney General of the
State of California

Approved:
PHILIP ANGELES
Treasurer of the State of
California

By _____
Deputy Attorney General

By Juan C. Fernandez
Deputy State Treasurer

Approved:
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By _____
Deputy Attorney General

By _____
Deputy State Treasurer

Approved:
ORRICK, HERRINGTON & SUTCLIFFE LLP

By Stanley J. Dirks

The duties and obligations imposed by this Resolution on the Controller of the State of California are accepted.

KATHLEEN CONNELL
Controller of the State of California

By: Walter Bary
Deputy

May 6, 2002

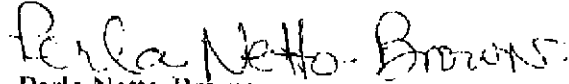
Treasurer of the State of California
915 Capitol Mall, Room 235
Sacramento, California 95814
Attention: Katie Carroll

Re: State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds

Dear Ms. Carroll:

Pursuant to Section 1102 of State of California Department of Water Resources Resolution No. DWR-WS-1 (the "General Bond Resolution"), we have enclosed a copy of State of California Department of Water Resources Resolution No. DWR-WS-49 (the "Amendment"), which supplements and amends the General Bond Resolution (as so supplemented and amended, the "Resolution"). Under said Section 1102, you are requested to hold this enclosure for inspection by the registered owner of any of the captioned bonds.

Sincerely,


Perla Netto-Brown
Chief, Division of Fiscal Resources

Enclosure

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

TWENTY-SIXTH SUPPLEMENTAL RESOLUTION
AUTHORIZING \$160,225,000
CENTRAL VALLEY PROJECT
WATER SYSTEM REVENUE BONDS,
SERIES X

(NO. DWR-WS-49)

Adopted as of May 1, 2002

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TWENTY-SIXTH SUPPLEMENTAL RESOLUTION
AUTHORIZING \$160,225,000
CENTRAL VALLEY PROJECT
WATER SYSTEM REVENUE BONDS,
SERIES X

(No. DWR-WS-49)

WHEREAS, as of July 1, 1986, the State of California Department of Water Resources (the "Department") duly adopted a resolution designated "No. DWR-WS-1", and entitled "Central Valley Project Water System Revenue Bonds, General Bond Resolution" (as supplemented, the "Resolution");

WHEREAS, Sections 205, 206 and 207 of the Resolution provide that the Department may issue Bonds of any Series for the purpose of obtaining moneys for the payment of Water System Capital Costs, for deposit in the Reserve Account and for refunding purposes upon compliance with the provisions of such Sections 205, 206 and 207;

WHEREAS, as of January 16, 1992, the Department adopted the Tenth Supplemental Resolution Authorizing \$649,835,000 Central Valley Project Water System Revenue Bonds, Series J-1, J-2 and J-3 (the "Series J Bonds"), and issued such bonds on January 28, 1992, for the purposes of (i) refunding all of the Department's Central Valley Project Power Facilities Revenue Bonds, Series A, and a portion of the Department's Central Valley Project Power Facilities Revenue Bonds, Series D, Series E, Series F and Series H, and Central Valley Project Water System Revenue Bonds, Series B and Series D, (ii) paying the expenses of calling and paying such bonds and (iii) making a deposit into the Reserve Account in an amount needed to increase the amount in the Reserve Account to the aggregate of the Reserve Account Requirement upon the issuance of the Series J Bonds;

WHEREAS, as of May 12, 1992, the Department adopted the Eleventh Supplemental Resolution Authorizing \$100,000,000 Central Valley Project Water System Revenue Bonds, Series K (the "Series K Bonds"), and issued such bonds on June 4, 1992, for the purposes of (i) paying Water System Capital Costs of the East Branch Enlargement - First Stage, the Additional East Branch Improvements, the Suisun Marsh Environmental Facilities, the Delta Pumping Plant Completion, and the Project Monitor and Control System, (ii) paying Project Planning Costs, and (iii) making a deposit into the Reserve Account in an amount needed to increase the amount in the Reserve Account to the aggregate of the Reserve Account Requirement upon the issuance of the Series K Bonds;

WHEREAS, as of December 9, 1993, the Department adopted the Fourteenth Supplemental Resolution Authorizing \$190,000,000 Central Valley Project Water System Revenue Bonds, Series M (the "Series M Bonds"), and issued such bonds on December 21, 1993, for the purposes of (i) paying Water System Capital Costs of the Delta Facilities Program, the Vista del Lago Visitor Center, and the Project Monitor and Control System, (ii) paying the cost of defeasance of Series I Notes (defined below), and (iii) making a deposit into the Reserve Account in an

amount needed to increase the amount in the Reserve Account to the aggregate of the Reserve Account Requirement upon the issuance of the Series M Bonds;

WHEREAS, as of November 5, 1996, the Department adopted the Eighteenth Supplemental Resolution Authorizing \$266,630,000 Central Valley Project Water System Revenue Bonds, Series Q (the "Series Q Bonds"), and issued such bonds on December 4, 1996, for the purpose of obtaining moneys for (i) the payment of the Water System Capital Costs of the East Branch Extension and the Coastal Branch - Phase II, (ii) deposit into the Reserve Account in an amount equal to the amount needed to increase the amount in the Reserve Account to the aggregate of the Reserve Account Requirement upon the issuance of the Series Q Bonds, (iii) the payment of a portion of the principal or Redemption Price (if applicable) of the Series J Bonds, the Department's Central Valley Project Water System Revenue Bonds, Series K, Series O and Series P, and expenses of calling and paying such bonds, (iv) the payment of the principal and interest of the Department's Water Revenue Commercial Paper Notes, Series 1, and (v) the payment of expenses of calling and paying such notes and expenses of issuing the Series Q Bonds;

WHEREAS, as of July 30, 1997, the Department adopted the Twenty-First Supplemental Resolution Authorizing \$135,665,000 Central Valley Project Water System Revenue Bonds, Series T (the "Series T Bonds"), and issued such bonds on March 4, 1998, for the purpose of obtaining moneys for the payment of a portion of the principal or Redemption Price (if applicable) of the Department's Central Valley Project Water System Revenue Bonds, Series F, and expenses of calling and paying such bonds;

WHEREAS, as of November 19, 1998, the Department adopted the Twenty-Second Supplemental Resolution Authorizing \$207,180,000 Central Valley Project Water System Revenue Bonds, Series U (the "Series U Bonds"), and issued such bonds on December 1, 1998 for the purpose of obtaining moneys for (i) the payment of the Water System Capital Costs of certain Projects; for the payment of capitalized interest on the Series U Bonds, (ii) deposit into the Reserve Account in an amount equal to the amount needed to increase the amount in the Reserve Account to the aggregate of the Reserve Account Requirement upon the issuance of the Series U Bonds, (iii) the payment of a portion of the principal or Redemption Price (if applicable) of a portion of the Series J Bonds, the Series Q Bonds, the Department's Central Valley Project Water System Revenue Bonds, Series G, Series H, Series I and Series P, and expenses of calling and paying such bonds, (iv) the payment of the principal and interest of the Department's Water Revenue Commercial Paper Notes, Series 1, and (v) the payment of expenses of calling and paying such notes and expenses of issuing the Series U Bonds;

WHEREAS, as of May 1, 2001, the Department adopted the Twenty-Fourth Supplemental Resolution Authorizing \$260,995,000 Central Valley Project Water System Revenue Bonds, Series W (the "Series W Bonds"), and issued such bonds on May 17, 2001, for the purpose of obtaining moneys for (i) the payment of capitalized interest on the Series W Bonds, (ii) deposit into the Reserve Account in an amount equal to the amount needed to increase the amount in the Reserve Account to the aggregate of the Reserve Account Requirement upon the issuance of the Series W Bonds, (iii) the payment of a portion of the principal or Redemption Price (if applicable) of a portion of the Series J Bonds, and expenses of calling and paying such bonds, (iv) the payment

of the principal and interest of the Department's Water Revenue Commercial Paper Notes, Series 1, and the payment of expenses of calling and paying such notes and (v) the payment of expenses of issuing the Series W Bonds;

WHEREAS, as of March 1, 1993, the Department adopted a resolution authorizing the Water Revenue Commercial Paper Notes, Series 1 (the "Series 1 Notes");

WHEREAS, the Department has determined, and does hereby determine, that it is necessary to carry out certain of the objects and purposes of the Central Valley Project Act consisting of the refunding of certain of the Outstanding Series J Bonds, Series K Bonds, Series M Bonds, Series Q Bonds, Series T Bonds, Series U Bonds and Series W Bonds, and the refunding of all of the Series 1 Notes maturing through June 7, 2002, and to these ends the Department has prepared preliminary cost estimates as follows:

Deposit to Reserve Account the amount needed to increase the amount in the Reserve Account to the aggregate of the Reserve Account Requirement upon the issuance of the Bonds of Series X.....	\$2,064,597.29
Deposit to Construction Fund to pay interest on a portion of the Series X Bonds through December 1, 2002	\$1,052,804.61
Required to pay the cost of defeasing certain Series J Bonds, Series K Bonds, Series M Bonds, Series Q Bonds, Series T Bonds, Series U Bonds and Series W Bonds.....	\$118,630,206.67
Required to pay the cost of defeasing the Series 1 Notes.....	\$41,346,175.40
Financing expenses for the Bonds of Series X (including underwriters' discount and a bond insurance premium)	\$2,049,834.98
Less net original issue premium	(\$4,918,618.95)
Required principal amount of Bonds of Series X.....	\$160,225,000

WHEREAS, the Department estimates the amount required to be raised for such objects and purposes by the issuance of Bonds of Series X to be \$160,225,000, and the Department has declared, and does hereby declare, that the public interest and necessity require the carrying out of such objects and purposes and hereby authorizes, in accordance with the Resolution, the issuance of Bonds of Series X for the purpose of obtaining moneys in an amount not in excess of that estimated to be required for such purposes, that is, the sum of \$160,225,000; and

WHEREAS, the provisions of Sections 205 and 207 of the Resolution have been satisfied or will be satisfied at the time of issuance of the Bonds of Series X;

NOW, THEREFORE, BE IT RESOLVED by the State of California Department of Water Resources as follows:

ARTICLE LXXXVII

AUTHORIZATION OF BONDS OF SERIES X

SECTION 8701. Bonds of Series X Subject to the Resolution. The terms and conditions contained in the Resolution shall apply to the Bonds of Series X with the same force and effect as if the same were herein set forth at length, with such additions thereto and variations thereof as may be appropriate to make the same conform to this Article LXXXVII and Articles LXXXVIII and LXXXIX.

SECTION 8702. Finding of Authority to Issue Bonds of Series X. The Department has reviewed all proceedings heretofore taken relative to the authorization of the Bonds of Series X, and has found as a result of such review, and hereby finds and determines, that all conditions, things and acts required by law to exist, happen or to be performed precedent to and in the issuance of the Bonds of Series X do exist, have happened and have been performed in due time, form and manner as required by law, and the Department is now authorized to issue the Bonds of Series X in the manner and form provided in the Resolution.

SECTION 8703. Authorization of Bonds of Series X. A Series of Bonds to be issued under the Resolution is hereby authorized. The Bonds of this Series shall be designated as and shall be distinguished from the Bonds of all other Series by the designation "Central Valley Project Water System Revenue Bonds, Series X". The aggregate principal amount of the Bonds of Series X at any time Outstanding shall not exceed One Hundred Sixty Million Two Hundred Twenty-Five Thousand Dollars (\$160,225,000).

SECTION 8704. Purpose. The Bonds of Series X are issued for the purposes of Sections 205 and 207 of the Resolution to obtain moneys for (i) deposit into the Reserve Account in an amount equal to the amount needed to increase the amount in the Reserve Account to the aggregate of the Reserve Account Requirement upon the issuance of the Bonds of Series X, (ii) the payment of interest on a portion of the Series X Bonds to December 1, 2002, (iii) the payment of the principal and interest or Redemption Price (if applicable) of certain of the Outstanding Series J Bonds, Series K Bonds, Series M Bonds, Series Q Bonds, Series T Bonds, Series U Bonds and Series W Bonds and expenses of calling and paying such bonds, (iv) the payment of the principal and interest of the Series 1 Notes being refunded and expenses of calling and paying such notes, and (v) the payment of expenses of issuing the Bonds of Series X.

ARTICLE LXXXVIII

TERMS OF BONDS OF SERIES X

SECTION 8801. Date. The Bonds of Series X shall be dated as of May 1, 2002.

SECTION 8802. Denominations. The Bonds of Series X shall be issued only in registered form in the denominations of \$5,000 and any integral multiple of \$5,000.

SECTION 8803. Designation of Serial Bonds and Term Bonds. All Bonds of Series X bearing maturity dates of December 1, 2002 through December 1, 2023, inclusive, are hereby designated Serial Bonds. The Bonds of Series X maturing on December 1, 2029 are hereby designated Term Bonds.

SECTION 8804. Maturities, Interest Rates, Interest Payment Dates and Record Dates. The Bonds of Series X shall mature in the respective principal amounts, on December 1 of the respective years, and shall bear interest from May 1, 2002, payable semiannually on June 1 and December 1 in each year, commencing on December 1, 2002, at the respective rates per annum, set forth below:

<u>Maturity Date</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2002*	\$ 2,000,000	2.500%
2003*	1,295,000	2.500
2004*	1,385,000	2.500
2005*	1,415,000	3.500
2006*	1,465,000	3.500
2007*	1,520,000	4.000
2010	4,360,000	4.000
2013	1,580,000	4.200
2013†	3,115,000	5.000
2014	1,645,000	4.375
2014†	3,120,000	5.000
2015	1,715,000	4.500
2015†	13,885,000	5.500
2016	1,795,000	4.500
2016†	17,645,000	5.500
2017	1,875,000	4.625
2017†	20,580,000	5.500
2018	1,960,000	4.750
2019	2,055,000	5.000
2020	2,160,000	5.000
2021	19,505,000	5.000
2022	20,460,000	5.125
2023	11,340,000	5.150
2029	22,350,000	5.000

* Not insured.

† Not callable.

The record date for each interest payment date shall be the close of business on the fifteenth day of the month immediately preceding such interest payment date.

SECTION 8805. Redemption. The Bonds of Series X identified as “not callable” in Section 8804 (the “Non-Callable Bonds”) are not subject to redemption prior to their stated maturities. In addition, the Bonds of Series X maturing on or before December 1, 2012, are not subject to redemption prior to their stated maturities. The Bonds of Series X maturing on or after December 1, 2013, other than the Non-Callable Bonds, are subject to redemption prior to their respective stated maturities, at the option of the Department from any source of available funds, as a whole, or in part by such maturities as the Department may designate (and by lot within any maturity), on any date on or after December 1, 2012, upon payment of a redemption price equal to the principal amount of the Bonds of Series X to be redeemed, plus accrued interest to the redemption date.

The Bonds of Series X maturing on December 1, 2029, are also subject to redemption prior to their respective stated maturities, in part, by lot, from Sinking Fund Installments established for such maturity in Section 8807, on any December 1 on or after December 1, 2024, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

Notice of redemption of Bonds of Series X shall be given pursuant to Section 403 not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption.

SECTION 8806. Form of Bonds of Series X and Treasurer’s Certificate of Authentication. The form of the Bonds of Series X and the Treasurer’s Certificate of Authentication of Bonds shall be substantially as set forth below:

(FORM OF BOND OF SERIES X)

No. R-___

\$_____

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES
CENTRAL VALLEY PROJECT WATER SYSTEM REVENUE BOND
SERIES X

INTEREST RATE	MATURITY DATE	ISSUE DATED	CUSIP
		May 1, 2002	

Registered Owner:

Principal Sum: _____ DOLLARS

THE DEPARTMENT OF WATER RESOURCES (the "Department"), a department of the State of California organized and existing under the Water Code of the State of California, for value received, promises to pay (but only out of the Revenues and certain other moneys referred to below) to the registered owner or registered assigns, on the maturity date specified above (subject to any right of prior redemption provided below), the principal sum specified above, together with interest on such principal sum from the interest payment date immediately preceding the date of registration of this Bond (unless this Bond is registered as of an interest payment date, in which event it shall bear interest from that date, or unless this Bond is registered before December 1, 2002, in which event it shall bear interest from May 1, 2002) until this Bond is fully paid in accordance with its terms at the interest rate per annum specified above, payable semiannually on June 1 and December 1 in each year, commencing on December 1, 2002. Interest shall cease to accrue upon this Bond from and after the date of maturity unless this Bond is presented for payment and remains unpaid after presentation. Principal (or redemption price) of this Bond is payable in lawful money of the United States of America upon surrender at the office of the Treasurer of the State of California (the "Treasurer") in Sacramento, California. Interest on this Bond is payable in like lawful money by check or draft mailed to the person whose name appears on the Bond registration books of the Treasurer as the owner as of the Record Date at the owner's address as it appears on the registration books or at such address as the owner may have filed with the Treasurer for that purpose. "Record Date" means the close of business on the fifteenth day of the month immediately preceding an interest payment date, whether or not the day is a business day.

Payment of the principal or redemption price of, and interest on, this Bond is secured by a first and direct charge and lien upon the Revenues (as defined in the Resolution) and all moneys and securities held, and accounts established, under the Resolution (except amounts in any Rebate Account established under the Resolution), subject only to the provisions of the Resolution permitting the payment or use thereof for the purposes, in the manner, and upon the terms and conditions set forth in the Resolution. NEITHER THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE NOR ANY PART THEREOF OF THIS BOND NOR ANY INTEREST THEREON CONSTITUTES A DEBT, LIABILITY, OR OBLIGATION OF THE STATE OF CALIFORNIA, OR, EXCEPT AS EXPRESSLY PROVIDED HEREIN AND IN THE RESOLUTION, OF THE DEPARTMENT.

This Bond is one of a duly authorized issue of the Department's "Central Valley Project Water System Revenue Bonds" (the "Bonds"). The Bonds are issued and to be issued pursuant to the statute known as the Central Valley Project Act, which is Part 3 of Division 6 of the Water Code of the State of California (the "Central Valley Project Act"), and pursuant to a resolution of the Department adopted as of July 1, 1986, and entitled "Central Valley Project Water System Revenue Bonds, General Bond Resolution" (the "Resolution"). As provided in the Resolution, the Bonds may be issued from time to time in one or more series in various principal amounts, may mature at different times, may bear interest at different rates payable on different dates, and may otherwise vary as provided in the Resolution. All Bonds issued and to be issued under the Resolution are and will be equally secured by the pledge of the Revenues and certain other moneys hereinafter mentioned. This Bond is one of a series of Bonds designated as "Central Valley Project Water System Revenue Bonds, Series X" (the "Bonds of Series X"), issued under the Resolution and a supplemental resolution of the Department adopted as of May 1, 2002, and entitled "Twenty-Sixth Supplemental Resolution Authorizing \$160,225,000 Central Valley Project Water System Revenue Bonds, Series X" (the "Twenty-Sixth Supplemental Resolution"). The Bonds of Series X are issued in an aggregate principal amount not to exceed \$160,225,000.

Copies of the Resolution and the Twenty-Sixth Supplemental Resolution are on file at the office of the Department in Sacramento, California, and at the office of the Treasurer in Sacramento, California. The terms of the Resolution and the Twenty-Sixth Supplemental Resolution are hereby incorporated herein and constitute a contract between the Department and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner hereof, by acceptance of this Bond, hereby consents and agrees.

Pursuant to the Twenty-Fifth Supplemental Resolution, on file at the office of the Department in Sacramento, California, and at the office of the Treasurer in Sacramento, California, the terms of the Resolution will be amended upon obtaining the consents of the registered owners of sixty percent (60%) of the principal amount of Bonds Outstanding to such amendments, and upon the satisfaction of certain other conditions, as provided in the Resolution. The amended terms of the Twenty-Fifth Supplemental Resolution, upon becoming effective in accordance with the Resolution, will constitute an amendment to the contract between the Department and the registered owner from time to time of this Bond and are incorporated herein by this reference. By acceptance of this Bond, the registered owner hereby consents and agrees to such amendment.

The Bonds of Series X identified as "not callable" in Section 8804 of the Twenty-Sixth Supplemental Resolution (the "Non-Callable Bonds") are not subject to redemption prior to their stated maturities. In addition, the Bonds of Series X maturing on or before December 1, 2012, are not subject to redemption prior to their stated maturities. The Bonds of Series X maturing on or after December 1, 2013, other than the Non-Callable Bonds, are subject to redemption prior to their respective stated maturities, at the option of the Department from any source of available funds, as a whole, or in part by such maturities as the Department may designate (and by lot within any maturity), on any date on or after December 1, 2012, upon payment of a redemption price equal to the principal amount of the Bonds of Series X to be redeemed, plus accrued interest to the redemption date.

The Bonds of Series X maturing on December 1, 2029 are also subject to redemption prior to their respective stated maturities, in part, by lot, from Sinking Fund Installments established for each such maturity pursuant to the Twenty-Sixth Supplemental Resolution, on any December 1 on or after December 1, 2024, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

This Bond is transferable, as provided in the Resolution, only on the registration books of the Treasurer kept for that purpose in Sacramento, California, at the Office of the Treasurer, upon surrender of this Bond at the Office of the Treasurer, together with an instrument of transfer satisfactory to the Treasurer. Upon surrender, the Department shall execute, and the Treasurer shall authenticate, in the name of the transferee, a new registered Bond or Bonds of the same series, maturity, and aggregate principal amount as this Bond and such new Bond or Bonds shall be delivered by the Treasurer at the Treasurer's office in Sacramento, California. The Department, the Treasurer and any other person may treat the person in whose name this Bond is registered as the absolute owner of this Bond for the purpose of receiving payment of, or on account of, the principal or redemption price hereof and interest due hereon and for all other purposes. The Treasurer shall not be required to register the transfer of this Bond during the five days next preceding any date established by the Treasurer for the selection of Bonds for redemption, during the period after the selection of this Bond for redemption or during the period from the fifteenth day of the month next preceding any interest payment date to such interest payment date.

The Bonds of Series X are issuable only in the form of fully registered Bonds in the denominations of \$5,000 and integral multiples of \$5,000. This Bond may be exchanged for registered Bonds of other authorized denominations, of the same series, maturity and aggregate principal amount upon the surrender thereof for such purpose by the registered owner at the office of the Treasurer in Sacramento, California.

The rights and obligations of the Department and of the registered owners of the Bonds may be changed at any time in the manner, to the extent, and upon the terms and conditions provided in the Resolution, provided (1) no change shall be made in the principal amount or the redemption price of any Bond, or the rate of interest thereon, or the maturity of the principal thereof or of any installment of interest thereon, without the consent of all the registered owners of Bonds; and (2) no change shall be made in the percentages of the principal amount of Bonds the vote or

consent of which is required by the Resolution to effect any change, without the consent of all the registered owners of Bonds, all as more fully set forth in the Resolution.

This Bond shall not be entitled to any right or benefit under the Resolution or the Twenty-Sixth Supplemental Resolution or be valid or become effective for any purpose until the Treasurer's Certificate of Authentication is executed and dated by the Treasurer or a deputy of the Treasurer.

It is hereby certified that all conditions, things and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the Department, does not exceed any limit prescribed by law.

IN WITNESS WHEREOF, the State of California Department of Water Resources has caused this Bond to be executed in its name and on its behalf with the facsimile signature of the Director of Water Resources of the State of California and the facsimile countersignature of the Governor of the State of California, and the seal of the Department to be reproduced hereon, all as of the first day of May, 2002.

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES

[SEAL]

Director of Water Resources

COUNTERSIGNED:

Governor of the State of California

(FORM OF TREASURER'S CERTIFICATE OF AUTHENTICATION)

This Bond is one of the Central Valley Project Water System Revenue Bonds described in the within-mentioned Resolution which has been registered _____.

TREASURER OF THE STATE OF CALIFORNIA

By _____

SECTION 8807. Sinking Fund Installments. The Sinking Fund Installments for Term Bonds of Series X and the due dates of such Sinking Fund Installments shall be as follows:

Sinking Fund Installments for
Term Bonds of Series X due December 1, 2029

<u>Due Date (December 1)</u>	<u>Sinking Fund Installment</u>
2024	\$ 7,095,000
2025	2,760,000
2026	2,900,000
2027	3,045,000
2028	3,195,000
2029*	3,355,000

* Maturity.

SECTION 8808. Regulations With Respect to Transfer. The Treasurer shall not be required to register the transfer of any Bond of Series X during the five days next preceding any date established by the Treasurer for the selection of Bonds of Series X for redemption, during the period after the selection of such Bond for redemption or during the period from the fifteenth day of the month preceding any interest payment date to such interest payment date. Bonds of Series X may be issued only in registered form and registered Bonds of Series X may not be exchanged for coupon Bonds.

SECTION 8809. Paying Agent; Place of Payment. The Treasurer is hereby appointed as a Paying Agent for the Bonds of Series X to pay the principal or Redemption Price of such Bonds presented for payment at the office of the Treasurer in Sacramento, California. Payments of the principal or Redemption Price of, and interest on, the Bonds of Series X shall be made at the Office of the Treasurer in Sacramento, California.

SECTION 8810. Reserve Account. In order to provide for the placing of moncy in the Reserve Account pursuant to the requirement of Section 205(A)(11), the Treasurer shall deposit in the Reserve Account from the proceeds of the Bonds of Series X the amount of \$2,064,597.29, being an amount equal to the amount needed to increase the amount in the Reserve Account to the aggregate of the Reserve Account Requirement upon the issuance of the Bonds of Series X.

SECTION 8811. Book-Entry Bonds. (A) As provided in Section 313(A) of the Resolution and except as provided in subparagraph (C) of this Section, the registered owner of all of the Bonds of Series X shall be Cede & Co., as nominee for The Depository Trust Company ("DTC"). Payment of the interest on any Bond of Series X registered in the name of Cede & Co. shall be made on each Interest Payment Date for such Bonds to the account, in the manner and at the address indicated in or pursuant to the blanket letter of representations delivered to DTC by the Department and the Treasurer (the "Representation Letter"). Payment of principal or interest for any Bond of Series X registered in the name of Cede & Co. shall be made pursuant to the

Representation Letter by wire transfer of New York clearing house or equivalent next day funds or by wire transfer of same day funds to the account of Cede & Co. at the address indicated on the regular record date or special record date for Cede & Co. in the registration books of the Treasurer.

(B) The Treasurer and the Department shall treat DTC (or its nominee) as the sole and exclusive owner of the Bonds of Series X registered in its name for the purposes of payment of the principal or redemption price of or interest on the Bonds of Series X, selecting the Bonds of Series X or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under the Resolution or this Twenty-Sixth Supplemental Resolution, registering the transfer of Bonds of Series X, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever, and neither the Treasurer, nor the Department shall be affected by any notice to the contrary. Neither the Treasurer nor the Department shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this Section, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Bonds of Series X under or through DTC or any Participant, or any other person which is not shown on the registration books as being a Bondholder, with respect to the accuracy of any records maintained by DTC or any Participant; the payment of DTC or any Participant of any amount in respect of the principal of, redemption price of or interest on the Bonds of Series X; any notice which is permitted or required to be given to Bondholders under the Resolution; the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds of Series X; any consent given or other action taken by DTC as Bondholder; or any other purpose. Upon delivery by DTC to the Treasurer of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions herein with respect to record date, the word "Cede & Co." in this Twenty-Sixth Supplemental Resolution shall refer to such new nominee of DTC.

The Representation Letter shall not in any way limit the provisions of this subsection (B) or in any other way impose upon the Department, the Treasurer or any Paying Agent any obligation whatsoever with respect to persons having interests in the Bonds of Series X other than the Bondholders, as shown on the registration books kept by the Treasurer.

(C) Notwithstanding any contrary provision herein, the Series X Bonds may be issued in registered form, with the physical delivery of Bond certificates to the initial purchaser thereof, and without participation in the book-entry system of any securities depository. The registration of such Bonds may be transferred to DTC (or its nominee) in accordance with the provisions of the Resolution at any time. With respect to Series X Bonds registered in the name of Cede. & Co, if the Department and the Treasurer determine that it is in the best interest of the beneficial owners of the Bonds of Series X that they be able to obtain Bond certificates, and notify DTC of such determination, DTC will notify the Participants of the availability through DTC of such Bond certificates. In such event, the Treasurer shall authenticate, transfer and exchange certificates for the Bonds of Series X as requested by DTC and any other registered Bondholders in appropriate amounts as provided in Article III of the Resolution. DTC may determine to discontinue providing its services with respect to the Bonds of Series X at any time by giving notice to the Department and the Treasurer and discharging its responsibilities with respect thereto under

applicable law. Under such circumstances (if there is no successor securities depository), the Department and the Treasurer shall deliver certificates for the Bonds of Series X as described in the Resolution. In the event such Bond certificates are issued, the provisions of the Resolution and this Twenty-Sixth Supplemental Resolution shall apply to, among other things, the transfer and exchange of such certificates and the method of payment of principal of and interest on such certificates.

(D) In connection with any notice or other communication to be provided to Holders of Bonds of Series X pursuant to the Resolution and this Twenty-Sixth Supplemental Resolution by the Department or the Treasurer with respect to any consent or other action to be taken by Bondholders, the Department or the Treasurer, as the case may be, shall establish a record date for such consent or other action and give DTC notice of such record date pursuant to the Representation Letter not less than 15 calendar days in advance of such record date to the extent possible. Notice to DTC shall be given only when DTC is the sole Holder of Bonds of Series X.

ARTICLE LXXXIX

DISPOSITION OF PROCEEDS OF BONDS OF SERIES X

SECTION 8901. Disposition of Proceeds; Transfer of Funds. (A) The proceeds of the sale of the Bonds of Series X remaining after the deposit in the Reserve Account required by Section 8810 shall be deposited as follows:

(1) The amount of \$118,630,206.67 shall be deposited with the Treasurer in the capacity of Escrow Agent under one or more Escrow Agreements to be dated as of the date hereof (the "Escrow Agreements"), between the Department and the Treasurer. The Treasurer shall also transfer \$760,000.00, held in the Revenue Fund for the payment of debt service on the Series K Bonds being refunded, to the Escrow Agent. Amounts so deposited with and transferred to the Escrow Agent shall be held in trust and invested under the terms of such agreement for the benefit of the holders of such Bonds being refunded. Pursuant to Section 207(B) of the Resolution, interest income on amounts so invested shall be deemed to be included in the funds deposited with the Treasurer pursuant to this Section 8901(A)(1).

(2) The amount of \$41,346,175.40 shall be deposited with the Treasurer to be held in trust for the benefit of the holders of the Series 1 Notes being refunded and applied through June 7, 2002, to the payment of the Series 1 Notes being refunded. Upon the payment of the Series 1 Notes maturing on June 7, 2002, any remaining amounts held by the Treasurer pursuant to this Section 8901(A)(2) shall be transferred to the Construction Fund and allocated to the Series X Account, for the purposes set forth in Section 8901(A)(4).

(3) The amount of \$737,273.39, representing accrued interest on the Series X Bonds, shall be deposited in the Interest Account for the payment of a portion of the interest due on December 1, 2002.

(4) The balance of such proceeds shall be deposited in the Construction Fund and allocated to a Series X Account, which the Controller shall establish and maintain in the Construction Fund, for the payment of Water System Capital Costs, including capitalized interest on the Bonds of Series X in the amount of \$1,052,804.61 and Water System Capital Costs of the type described in clause (1) of the third paragraph of the definition of such term in Section 101.

ARTICLE XC

MISCELLANEOUS

SECTION 9001. Tax Covenants. The Department shall at all times do and perform all acts and things permitted by law and this Resolution that are necessary or desirable in order to assure that interest paid on the Bonds of Series X will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Department agrees to comply with the provisions of the Tax Certificate to be executed by the Department on the date of issuance of the Bonds of Series X. This covenant shall survive payment in full or defeasance of the Bonds of Series X.

SECTION 9002. Continuing Disclosure. The Department shall at all times comply with and carry out all of the provisions of the Continuing Disclosure Certificate, dated as of December 1, 1995, as supplemented by a Supplemental Continuing Disclosure Certificate, dated as of May 1, 2002 (as supplemented, the "Continuing Disclosure Certificate"), executed by the Department, as originally executed and as it may be amended from time to time in accordance with the terms thereof. Notwithstanding any other provision of the Resolution, failure of the Department to comply with the Continuing Disclosure Certificate shall not be considered an event of default under the Resolution; however, the Treasurer, any Holder or any Beneficial Owner (as defined in the Continuing Disclosure Certificate) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Section.

SECTION 9003. Designation and Delegation. The Chief, Division of Fiscal Services of the Department is hereby designated by the Director as a person who may sign any Certificate of the Department, within the meaning of that term in Section 101, related to the sale, issuance and delivery of the Bonds of Series X. In addition, pursuant to Sections 7 and 120 of the Water Code, the Chief, Division of Fiscal Services of the Department is hereby delegated the authority to execute and deliver any and all certificates, agreements and other instruments that are necessary or appropriate in connection with the sale, issuance and delivery of the Bonds of Series X.

SECTION 9004. Consent to Twenty-Fifth Supplemental Resolution. Pursuant to the Twenty-Fifth Supplemental Resolution, on file at the office of the Department in Sacramento, California, and at the office of the Treasurer in Sacramento, California, the terms of the Resolution will be amended upon obtaining the consents of the registered owners of sixty percent (60%) of the principal amount of Bonds Outstanding to the amendments contained in the Twenty-Fifth

Supplemental Resolution, and upon the satisfaction of certain other conditions, as provided in Article XI. The amended terms of the Twenty-Fifth Supplemental Resolution, upon becoming effective in accordance with Article XI, will constitute an amendment to the contract between the Department and the Holders from time to time of the Bonds. By acceptance of a Series X Bond, the Holder thereof irrevocably consents and agrees to the amendments contained in the Twenty-Fifth Supplemental Resolution. Such consent shall be binding upon all successors and assigns.

SECTION 9005. Representation Regarding Resolution. The Department represents that, pursuant to Government Code Section 5451, the Resolution creates a valid and binding charge and lien upon the Revenues and all moneys and securities held, and accounts established, under the Resolution (except amounts held in any Rebate Account established under the Resolution), for the benefit of the Bondholders, as security for the payment of the Series X Bonds and all other Bonds to the extent set forth in the Resolution, enforceable in accordance with the terms of the Resolution, subject only to the provisions of the Resolution permitting the payment or use of such Revenues, moneys, securities and accounts for the purposes, in the manner and upon the terms and conditions, set forth in the Resolution.

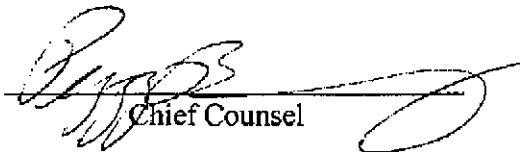
SECTION 9006. Amendment to Bond Resolution. (A) The following sentence is hereby added to the definition of Reserve Account Requirement in Section 101 of the Resolution (as such definition is amended by the Twenty-Fifth Supplemental Resolution):

For purposes of calculating the Reserve Account Requirement for any fiscal year, Bonds bearing interest at a variable rate shall be assumed to bear interest during such fiscal year at a rate equal to the rate most recently reported by The Bond Buyer as the Bond Buyer Index for long-term revenue bonds; provided that if on the date of calculation the interest rate on such Bonds shall then be fixed for a specified period during such fiscal year, the interest rate assumed for such Bonds for such fiscal year shall be the actual interest rate.

(B) As provided in Article XI, the provisions of this Section 9006 shall not become effective until the written consents of the Holders of at least sixty percent (60%) of the principal amount of Bonds Outstanding shall have been obtained and the other requirements contained in Article XI shall have been satisfied. Until such time as the provisions of this Section 9006 become effective, the provisions of the Resolution shall remain unaltered by this Section 9006 and shall remain in full force and effect, except as the Resolution may be otherwise amended in accordance with Article XI or discharged in accordance with Section 1204.

THIS RESOLUTION is hereby adopted in the State of California by the State of California Department of Water Resources as of the 1st day of May, 2002.

Approved as to legal form
and sufficiency:


Chief Counsel

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES


Director

Approved:
BILL LOCKYER
Attorney General of the
State of California

Approved:
PHILIP ANGELIDES
Treasurer of the State of
California

By _____
Deputy Attorney General

By _____
Deputy State Treasurer

Approved:
ORRICK, HERRINGTON & SUTCLIFFE LLP

By _____

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State of California

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Treasurer of the State of
California

By


Deputy Attorney General

By

Deputy State Treasurer

Approved:
ORRICK, HERRINGTON & SUTCLIFFE LLP

By

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By _____
Deputy Attorney General

By Juan C. Fernandez
Deputy State Treasurer

Approved:
ORRICK, HERRINGTON & SUTCLIFFE LLP

By _____

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State of California

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PHILIP ANGELES
Treasurer of the State of
California

By _____
Deputy Attorney General

By _____
Deputy State Treasurer

Approved:
ORRICK, HERRINGTON & SUTCLIFFE LLP

By Stanley J. Dirks

The duties and obligations imposed by this Resolution on the Controller of the State of California are accepted.

KATHLEEN CONNELL
Controller of the State of California

By: Walter Bary
Deputy

June 4, 2002

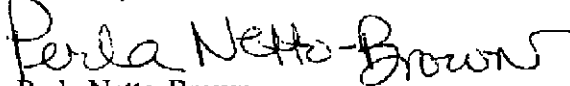
Treasurer of the State of California
915 Capitol Mall, Room 235
Sacramento, California 95814
Attention: Katie Carroll

Re: State of California Department of Water Resources
Central Valley Project Water System Revenue Bonds

Dear Ms. Carroll:

Pursuant to Section 1102 of State of California Department of Water Resources Resolution No. DWR-WS-1 (the "General Bond Resolution"), we have enclosed a copy of State of California Department of Water Resources Resolution No. DWR-WS-49 (the "Amendment"), Section 9006 of which supplements and amends the General Bond Resolution (as so supplemented and amended, the "Resolution"). Under said Section 1102, you are requested to hold this enclosure for inspection by the registered owner of any of the captioned bonds.

Sincerely,



Perla Netto-Brown
Chief, Division of Fiscal Resources

Enclosure